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CREATING VALUE IN THE UPSTREAM OIL & GAS BUSINESS

ANNUAL
INFORMATION
FORM
MARCH 14, 2005

Deep Gas - A North American
success story

Drilling for deep gas
in the BC Foothills

Major new field development
under way in the North Sea

Continued production growth
in Southeast Asia

Exploring some of the world's
most prolific hydrocarbon basins

TALISMAN

E N E R G Y

**ANNUAL INFORMATION FORM
FOR THE YEAR ENDED DECEMBER 31, 2004**

March 14, 2005

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS	1	DESCRIPTION OF CAPITAL STRUCTURE	36
NOTE REGARDING RESERVES DATA AND OTHER OIL AND GAS INFORMATION	2	Share Capital	36
		Ratings	37
EXCHANGE RATE INFORMATION	3	MARKET FOR THE SECURITIES OF THE COMPANY	37
DEFINITIONS	3	Trading Price and Volume	38
CORPORATE STRUCTURE	4	DIVIDENDS	38
GENERAL DEVELOPMENT OF THE BUSINESS	4	DIRECTORS AND OFFICERS	39
North America	4	Directors	39
International and Frontier	5	Officers	41
DESCRIPTION OF THE BUSINESS	5	Shareholdings of Directors and Executive Officers	41
North America	5	Conflicts of Interest	42
Canada	7	AUDIT COMMITTEE INFORMATION	42
United States	9	LEGAL PROCEEDINGS	42
Landholdings, Production and Productive Wells	9	RISK FACTORS	42
International and Frontier	11	TRANSFER AGENTS AND REGISTRARS	45
North Sea	11	INTERESTS OF EXPERTS	45
Southeast Asia	15	ADDITIONAL INFORMATION	45
Algeria	18	SCHEDULE A – REPORT ON RESERVES DATA BY TALISMAN'S INTERNAL QUALIFIED RESERVES EVALUATOR	46
Trinidad	19	SCHEDULE B – REPORT OF MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE	47
Colombia	20	SCHEDULE C – AUDIT COMMITTEE INFORMATION	49
Peru	20		
Qatar	20		
Alaska	20		
Other	20		
Productive Wells and Acreage	21		
Drilling Activity	22		
Reserves Estimates	25		
Other Oil and Gas Information	27		
Continuity of Net Proved Reserves	27		
Standardized Measure of Discounted Future Net Cash Flows From Proved Reserves	28		
Results of Operations from Oil and Gas Producing Activities	30		
Capitalized Costs Relating to Oil and Gas Activities	30		
Costs Incurred in Oil and Gas Activities	31		
Product Netbacks (Net)	32		
Supplemental Oil and Gas Information	33		
Continuity of Gross Proved Reserves	33		
Product Netbacks (Gross)	34		
Additional Information	35		
Competitive Conditions	35		
Social Responsibility and Environmental Protection	35		
Employees	36		

FORWARD-LOOKING STATEMENTS

This Annual Information Form contains or incorporates by reference statements that constitute "forward-looking statements" within the meaning of applicable securities legislation.

Unless the context indicates otherwise, a reference in this Annual Information Form to "Talisman" or the "Company" includes direct or indirect subsidiaries of Talisman Energy Inc. and partnership interests held by Talisman Energy Inc. and its subsidiaries.

Identifying forward-looking statements

Forward-looking statements are included throughout this Annual Information Form including, among other places, under the headings "General Development of the Business", "Description of the Business" and "Legal Proceedings". These statements include, among others, statements regarding:

- business strategy and plans or budgets;
- business plans for drilling, exploration and development;
- the estimated amounts and timing of capital expenditures;
- royalty rates and exchange rates;
- the merits and timing or anticipated outcome of pending litigation; and
- other expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, results of operations or performance.

Statements concerning oil and gas reserves contained in this Annual Information Form under the headings "Description of the Business – Reserves Estimates" and elsewhere may be deemed to be forward-looking statements as they involve the implied assessment that the resources described can be profitably produced in the future, based on certain estimates and assumptions.

Often, but not always, forward-looking statements use words or phrases such as: "expects", "does not expect" or "is expected", "anticipates" or "does not anticipate", "plans" or "planned", "estimates" or "estimated", "projects" or "projected", "forecasts" or "forecasted", "believes", "intends", "likely", "possible", "probable", "scheduled", "positioned", "goals" or "objectives", or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

Material factors that could cause actual results to differ materially from those in forward-looking statements

Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated by Talisman and described in the forward-looking statements. These risks and uncertainties include:

- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand;
- risks and uncertainties involving geology of oil and gas deposits;
- the uncertainty of reserves estimates and reserves life;
- the uncertainty of estimates and projections relating to production, costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing;
- uncertainties related to the litigation process, such as possible discovery of new evidence or acceptance of novel legal theories and the difficulties in predicting the decisions of judges and juries;
- risks in conducting foreign operations (for example, political and fiscal instability or the possibility of civil unrest or military action);
- general economic conditions;
- the effect of acts of, or actions against international terrorism; and
- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld.

We caution that the foregoing list of risks and uncertainties is not exhaustive. Additional information on these and other factors which could affect the Company's operations or financial results are included under the heading "Risk Factors", in the Report on Reserves Data by Talisman's Internal Qualified Reserves Evaluator and the Report of Management and Directors on Oil and Gas Disclosure, attached as schedules to this Annual Information Form, and elsewhere in this Annual Information Form. Additional information may also be found in the Company's other reports on file with Canadian securities regulatory authorities and the United States Securities and Exchange Commission (the "SEC").

No obligation to update forward-looking statements

Forward-looking statements are based on the estimates and opinions of the Company's management at the time the statements are made. The Company assumes no obligation to update forward-looking statements should circumstances or management's estimates or opinions change.

NOTE REGARDING RESERVES DATA AND OTHER OIL AND GAS INFORMATION

National Instrument 51-101 ("NI 51-101") of the Canadian Securities Administrators imposes oil and gas disclosure standards for Canadian public companies engaged in oil and gas activities. NI 51-101 and its companion policy specifically contemplate the granting of exemptions from some of the disclosure standards prescribed by NI 51-101 to companies that are active in the United States capital markets to permit the substitution of the disclosures required by the SEC rules in order to provide for comparability of oil and gas disclosure with that provided by U.S. and other international issuers. Talisman has obtained an exemption from Canadian securities regulatory authorities to permit it to provide disclosure in accordance with the relevant U.S. requirements. Accordingly, most of the reserves data and other oil and gas information included in this Annual Information Form is disclosed in accordance with U.S. disclosure requirements. Such information, as well as the information that Talisman discloses in the future in reliance on the exemption, may differ from the corresponding information prepared in accordance with NI 51-101 standards.

The primary differences between the U.S. requirements and the NI 51-101 requirements are that (i) SEC require (and normally permit) disclosure only of proved reserves, whereas NI 51-101 requires disclosure of proved and probable reserves, and (ii) SEC rules require that the reserves and future net revenue be estimated under existing economic and operating conditions, whereas NI 51-101 requires disclosure of proved reserves and the associated future net revenue on a constant basis, and of proved, probable and proved plus probable reserves and the associated future net revenue on a forecast basis. The definitions of proved reserves differ, but Talisman does not believe that the differences in the definitions would result in any material difference in its reserves estimates for that category. The Canadian Oil and Gas Evaluation Handbook ("COGEH", the reference source for the definition of proved reserves under NI 51-101) states that the differences in the estimated proved reserves quantities based on constant prices should not be material.

Talisman has disclosed proved reserves (including continuity of reserves) using the standards contained in U.S. Regulation S-X and the standardized measure of discounted future net cash flows from proved reserves determined in accordance with Statement No. 69 of the U.S. Financial Accounting Standards Board ("FAS 69"). U.S. practice is to disclose net proved reserves, after deduction of estimated royalty burdens and including net profit interests. In addition, notwithstanding that Talisman is not required to disclose probable reserves, it has done so using the definition for probable reserves set out by the Society of Petroleum Engineers/World Petroleum Congress ("SPE/WPC"). Talisman does not believe that the differences in the SPE/WPC and NI 51-101 definitions of probable reserves would result in any material difference in its estimates of probable reserves disclosed in this Annual Information Form.

EXCHANGE RATE INFORMATION

Except where otherwise indicated, in this Annual Information Form all dollar amounts are stated in Canadian dollars. The following table sets forth the Canada/U.S. exchange rates on the last day of the years indicated as well as the high, low and average rates for such years. The high, low and average exchange rates for each year were identified or calculated from spot rates in effect on each trading day during the relevant year. The exchange rates shown are expressed as the number of U.S. dollars required to purchase one Canadian dollar. These exchange rates are based on those published on the Bank of Canada's website as being in effect at approximately noon on each trading day (the "Bank of Canada noon rate")

Year ended December 31	2002	2003	2004
Year end	0.6331	0.7738	0.8308
High	0.6618	0.7738	0.8493
Low	0.6199	0.6350	0.7159
Average	0.6369	0.7156	0.7697

DEFINITIONS

The abbreviations set forth below have the following meanings:

bbls	barrels
bcf	billion cubic feet
boe	barrels of oil equivalent
bbis/d	barrels per day
mbbls/d	thousand barrels per day
mmbls	million barrels
mcf	thousand cubic feet
mmcfd	million cubic feet per day
liquids or NGLs	natural gas liquids

Natural gas is converted to oil equivalent at the ratio of 6 mcf to 1 boe. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6:1 is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Gross acres means the total number of acres in which Talisman has a working interest. Net acres means the sum of the fractional working interests owned in gross acres expressed as whole numbers and fractions thereof.

Gross production means Talisman's interest in production volumes (through working interests, royalty interests and net profits interests) before the deduction of royalties. Net production means Talisman's interest in production volumes after deduction of royalties payable by Talisman.

Gross wells means the total number of wells in which the Company owns a working interest. Net wells means the sum of the fractional working interests owned in gross wells expressed as whole numbers and fractions thereof.

CORPORATE STRUCTURE

Talisman Energy Inc. is amalgamated under the *Canada Business Corporations Act*. The Company's registered and principal office is located at Suite 3400, 888 Third Street S.W., Calgary, Alberta T2P 5C5.

In 2004, Talisman amended its Articles of Amalgamation to effect a three for one share subdivision.

The following table sets forth the material operating subsidiaries owned directly or indirectly by Talisman, their jurisdictions of incorporation and the percentage of voting securities beneficially owned, controlled or directed by Talisman as at December 31, 2004.

Name of Subsidiary	Jurisdiction of Incorporation	Percentage of Voting Securities Owned ¹
Talisman Energy (UK) Limited	England	100%
Talisman North Sea Limited	England	100%
Talisman (Corridor) Ltd.	Barbados	100%
Petromet Resources Limited	Ontario, Canada	100%
Fortuna Energy Inc.	Delaware, U.S.	100%
Talisman Malaysia Limited	Barbados	100%

Note:

¹ With the exception of Talisman Energy (UK) Limited and Talisman (Corridor) Ltd., none of the above subsidiaries has any non-voting securities outstanding. All of the non-voting securities of Talisman Energy (UK) Limited and Talisman (Corridor) Ltd. are directly or indirectly held by Talisman.

The above table does not include all of the subsidiaries of Talisman. The assets, sales and operating revenues of unnamed operating subsidiaries individually did not exceed 10%, and in the aggregate did not exceed 20%, of the total consolidated assets or total consolidated sales and operating revenues, respectively, of Talisman as at, and for the year ended, December 31, 2004.

Talisman Energy Inc. and Petromet Resources Limited ("Petromet"), an indirect subsidiary of Talisman, are partners in an Alberta general partnership named Talisman Energy Canada (the "Partnership"). Talisman is the managing partner of the Partnership. Talisman and Petromet contributed to the Partnership substantially all of their oil and gas assets located in Canada, including their interests in the facilities for processing, treating, storing and transporting the production from such assets. Since June 1, 2001, substantially all of Talisman's and Petromet's Canadian oil and gas operations have been carried on through the Partnership.

GENERAL DEVELOPMENT OF THE BUSINESS

Talisman is an independent, Canadian based, international upstream oil and gas company whose main business activities include exploration, development, production and marketing of crude oil, natural gas and natural gas liquids. The Company's reporting segments are North America, the North Sea, Southeast Asia, Trinidad and Algeria, where there are ongoing production, development and exploration activities. The Company is active in a number of other international and frontier areas, including Alaska, Colombia, Peru and Qatar.

During the past three years, Talisman has developed its business and diversified its interests through a combination of exploration, development, acquisitions and dispositions as described below. Internationally, the Company's exploration strategy is to pursue significant high impact opportunities to enhance production and value.

NORTH AMERICA

In October 2002, an indirect subsidiary of the Company acquired certain producing Trenton-Black River natural gas assets and additional undeveloped lands located in New York State. The same subsidiary subsequently acquired: (1) additional natural gas properties, working interests, production and facilities relating to the Trenton-Black River play in New York State in January 2003; and (2) all of Belden & Blake Corporation's Trenton-Black River assets in New York, Pennsylvania, Ohio and West Virginia in June 2004 resulting in ownership of approximately 433,000 gross acres. The June 2004 acquisition effectively doubled the subsidiary's existing net acreage held in the area.

In July 2003, a subsidiary of Talisman acquired various midstream assets in the Deep Basin area of northwestern Alberta through the purchase of Vista Midstream Solutions Ltd.

INTERNATIONAL AND FRONTIER

In 2002, Talisman expanded its exploration interests both offshore and onshore Trinidad. In 2003, the Company began the Angostura development project on offshore Block 2(c). Development continued through 2004 with production beginning in January 2005. Exploration is continuing in the onshore Eastern Block and in offshore Block 2(c) and Block 3(a).

In May 2002, a consortium in which Talisman is a member was awarded Block 46/02, a three million acre exploration block offshore Vietnam. In 2003, the Company completed the PM-3 Commercial Arrangement Area ("PM-3 CAA") Phase 2/3 Development Project offshore Malaysia/Vietnam. Oil production from this project began in September 2003 and gas production and sales commenced in November 2003. Talisman Malaysia Limited signed a production sharing contract in March 2004 for Block PM-314 offshore Malaysia.

In December 2002, production commenced at the Ourhoud field (Talisman 2%) in Algeria with first oil sales in 2003. In June 2003, production commenced from the Greater MLN field (Talisman 35%).

Talisman completed the sale of its indirect interest in the Greater Nile Oil Project in Sudan to ONGC Videsh Limited, a subsidiary of India's national oil company, in March 2003. An indirect subsidiary of Talisman had held a 25% interest in the Greater Nile Oil Project, which had been acquired in 1998.

In August 2003, a Talisman subsidiary was awarded four new exploration blocks in the United Kingdom North Sea ("UK North Sea") and in December 2003, Talisman acquired interests in the Ross, Renee and Rubie fields in the UK North Sea. In early 2004, a Talisman subsidiary acquired an operated interest in the Galley field in the UK North Sea, and in May 2004, Talisman's wholly owned subsidiaries acquired additional interests in the Flotta Catchment Area.

In September 2003, one of Talisman's indirect wholly owned subsidiaries acquired the operated interests and associated assets of BP Norge AS in the Gyda field in the Norwegian sector of the North Sea. Two additional licenses were awarded later in 2003. In February 2004, Talisman's subsidiary acquired an interest from ConocoPhillips Skandinavia AS in two more licences, including the Blane discovery. In December 2004, the subsidiary was awarded interests in five more licences in the Norwegian sector of the North Sea.

In the fourth quarter of 2004, Talisman Energy (UK) Limited acquired all of the outstanding shares of Intrepid Energy Beta Limited, which included an interest in a number of exploration licenses in the UK, Netherlands and German sectors of the North Sea.

In February 2005, Talisman Energy (UK) Limited acquired all of the outstanding shares in Pertra A.S., resulting in the addition of producing and undeveloped fields, as well as several blocks of operated and non-operated exploration acreage in the Norwegian sector of the North Sea.

Talisman announced in August 2004 an agreement for the sale of 2.3 trillion cubic feet of natural gas from the Corridor production sharing contract in Indonesia. A wholly owned subsidiary of Talisman has a 36% interest in the production sharing contract.

Since 2002, Talisman, through various wholly owned subsidiaries, has acquired non-operated interests in several blocks of exploration acreage in the Andean thrust and fold belt of Colombia and Peru. In 2004, the Company continued its ongoing exploration program on this acreage.

Through three separate transactions occurring in 2004, another indirect subsidiary of Talisman acquired an interest in over 400,000 gross acres of land in the North Slope of Alaska.

Talisman continually investigates strategic acquisitions, dispositions and other business opportunities, some of which may be material. In connection with any such transaction, the Company may incur debt or issue equity securities.

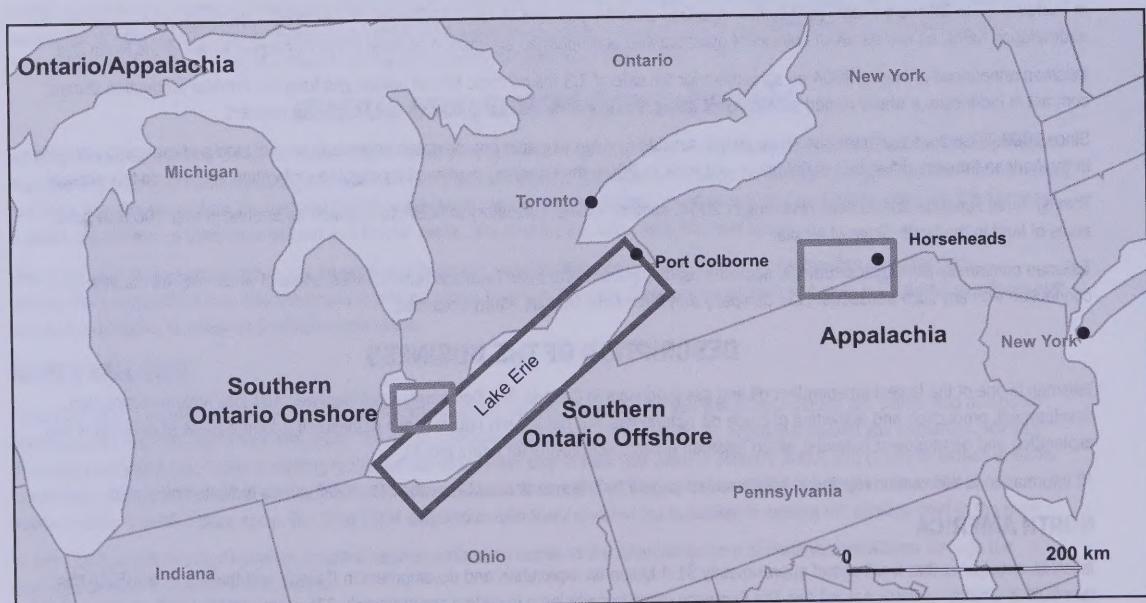
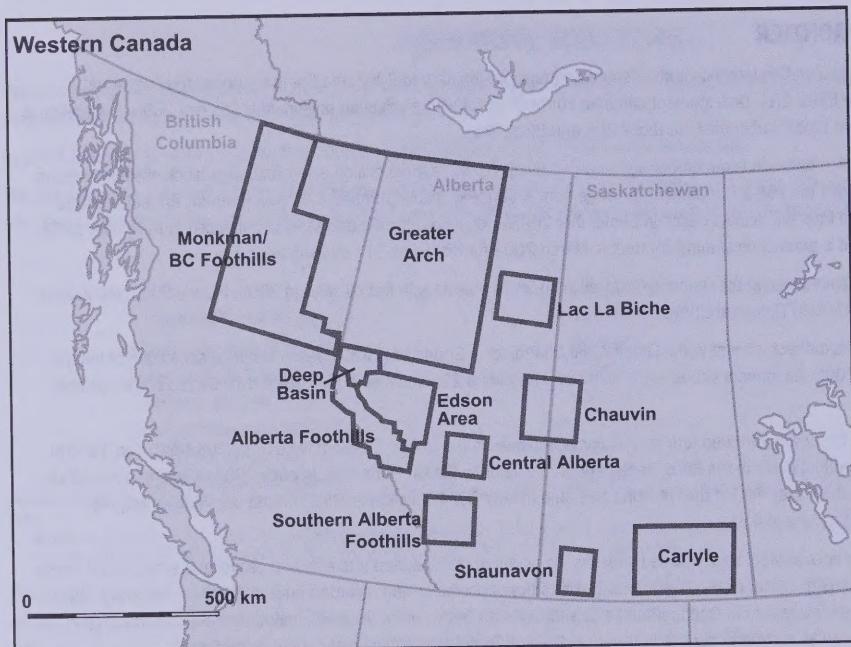
DESCRIPTION OF THE BUSINESS

Talisman is one of the largest independent oil and gas producers in Canada. The Company's main business activities include exploration, development, production and marketing of crude oil, natural gas and natural gas liquids. Each of Talisman's current areas of operations has exploration and development potential, which Talisman expects will provide for future growth.

All information in this section relating to assets owned or held by Talisman is as of December 31, 2004, unless indicated otherwise.

NORTH AMERICA

Talisman anticipates that it will spend approximately \$1.4 billion on exploration and development in Canada and the U.S. in 2005. Of this, over 90% is directed towards natural gas. The Company plans to participate in drilling approximately 525 gross wells in 2005. In the past two years, the Company's production growth has mainly been achieved through drilling activities.



CANADA

In Canada, the Company's strategy is to continue oil and natural gas exploration and development with production emphasis on natural gas exploration focused on deeper portions of the Western Canada Sedimentary Basin. Utilization of existing infrastructure and a high level of operatorship enable Talisman to maintain control over costs, production and capital spending.

Exploration and development activities focus on gas opportunities to take advantage of Talisman's expertise in medium to deep areas of the Western Canada Sedimentary Basin. The majority of this activity will be in the Alberta Foothills, Deep Basin, Edson area, Greater Arch, Monkman/BC Foothills and Southern Alberta Foothills regions.

Talisman's Canadian exploration and development operations are organized around 13 core producing areas in Alberta, British Columbia, Ontario and Saskatchewan, which accounted for 92% of the Company's Canadian production in 2004. The balance comprises production from joint venture properties and synthetic oil production from Talisman's indirect interest in the Syncrude joint venture. Of the 13 core areas the following seven are the principal gas production areas, namely: Greater Arch, Deep Basin, Alberta Foothills, Edson area (in turn comprised of Bigstone/Wild River, Edson and West Whitecourt), Monkman/BC Foothills, Lac La Biche, and Ontario offshore. The following six core areas are the principal oil production areas, namely: Southern Alberta Foothills, Ontario onshore, Chauvin, Carlyle, Central Alberta and Shaunavon. Within its core areas, Talisman operates approximately 80% of its production with high working interests in a large number of facilities.

Seven of the more active core properties accounted for approximately 76% of the Company's total Canadian production in 2004: Greater Arch, Deep Basin, Alberta Foothills, Edson area, Monkman/BC Foothills, Ontario (onshore and offshore) and Chauvin. Each of these areas is described in greater detail below.

Greater Arch

The Greater Arch remains Talisman's largest natural gas producing area. Talisman holds operated interests ranging from 42% to 100% in gas plants at Teepee Creek, Belloy, Boundary Lake, George, Josephine and Shane, as well as interests in a number of other non-operated gas plants in the area. The Company has a large inventory of opportunities to explore which are adjacent to existing infrastructure. The Company's average operated interest in oil and gas properties in the Greater Arch area is 68%. The Company expects that capital spending in 2005 in the Greater Arch area will be approximately \$108 million, and plans to participate in drilling approximately 66 wells.

Deep Basin

Talisman owns a 100% working interest in the Cutbank complex, consisting of the Cutbank and Musreau gas plants, five major field compression stations and an extensive gas gathering system, all of which ran close to capacity throughout 2004. Talisman also holds 3% to 8% non-operated interests in the South Wapiti, Wapiti Deep Cut and Narraway gas plants. The Company expects that capital spending in 2005 in the Deep Basin area will be approximately \$150 million, and plans to participate in drilling approximately 43 wells.

Alberta Foothills

Major operated facilities in the Alberta Foothills include an 80% interest in the Cordel dehydration facility and associated pipelines, interests ranging from 60% to 100% in the Erith pipeline and related facilities, a 38% interest in the Chungo/Bighorn gas gathering system, and a 45% interest in the Lovett River/Redcap pipeline system. Talisman has non-operated interests in Basing, Voyager, Stolberg and Brown Creek pipelines and associated facilities. The Company expects that capital spending in 2005 in the Alberta Foothills will be approximately \$203 million, and plans to participate in drilling 29 wells (approximately half of which are in the Northern Alberta Foothills). Production from the Northern Alberta Foothills area will involve a significant pipeline connection with volumes expected to come on-stream in 2006.

Edson Area

The Company expects that capital spending in 2005 in the Edson area will be approximately \$411 million, and plans to spend approximately \$84 million on infrastructure and participate in drilling 147 wells. The properties comprising the larger Edson area (Bigstone/Wild River, Edson and West Whitecourt) are detailed below.

Bigstone/Wild River

Talisman holds operated interests ranging from 64% to 100% in the Bigstone West and Wild River gas plants. The Company is currently focusing on infill drilling in the Wild River area of its Bigstone/Wild River acreage. The Company expects that capital spending in 2005 in the Bigstone/Wild River area will be approximately \$225 million (including \$22 million for expansion of the Wild River gas plant), and plans to participate in drilling 76 wells, 70% of which will be drilled in the Wild River area.

Edson

Talisman holds operated interests ranging from 59% to 100% in the Edson and Medicine Lodge gas plants. Talisman is currently focusing on exploring and exploiting opportunities in the Edson core area. In 2004, Talisman completed the construction of a 10 megawatt co-generation power plant at its Edson gas processing facility, which is expected to reduce direct carbon dioxide emissions by 22,000 tonnes a year. The Company expects that capital spending in 2005 in the Edson area will be approximately \$140 million, and plans to participate in drilling 46 wells.

West Whitecourt

Talisman holds a 51% operated interest in McLeod River gas plant as well as non-operated interests ranging from 10% to 12% in the Kaybob South Amalgamated and the West Whitecourt gas plants. Talisman is currently focusing on development drilling in the West Whitecourt area with expected capital spending in 2005 of approximately \$46 million to drill 25 wells.

Monkman/BC Foothills

In the Monkman/BC Foothills area, Talisman holds 58% to 100% operated interests in the Bullmoose, Sukunka and West Sukunka dehydration plants, 29% to 32% non-operated interests in the Murray River and Brazion dehydration plants and a 50% interest in the Mink Highhat Gathering System. In 2004, Talisman drilled the b-60-E/93-P-5 well ("b-60-E") in the Brazion area, which has produced up to 66 mmcf/d gross sales gas in early 2005. b-60-E production is expected to increase Monkman/BC Foothills production by approximately 25% to 35% above the 2004 production levels. Talisman continued to drill in the more mature Triassic play with two out of two wells testing at rates ranging from 16 to 19 mmcf/d. The Company expects that capital spending in 2005 in the Monkman/BC Foothills area will be approximately \$88 million, including an expansion of the Bullmoose compressor station, and plans to participate in drilling approximately eight wells.

Ontario

Talisman currently has natural gas production in the offshore area of Lake Erie and oil production onshore. Talisman has a 100% interest in the Renwick, North Wheatley (East), Rochester and Hillman central facilities. In addition, Talisman has interests ranging from 65% to 100% in the Morpeth, Port Stanley, Port Alma, Port Maitland, Rochester and Nanticoke gas plants. Talisman's drilling program will continue in 2005 with plans to participate in drilling five onshore oil wells and 20 offshore gas wells. The Company expects that capital spending in 2005 in Ontario will be approximately \$15 million.

Chauvin

Chauvin is Talisman's largest domestic oil producing core property. Talisman holds a 100% interest in the Chauvin pipeline, which transports approximately 38 mbbls/d of condensate blended crude. It also holds a 100% interest in the Chauvin Custom Treating Facility. The Company expects that capital spending in 2005 in the Chauvin area will be approximately \$37 million, and plans to participate in drilling approximately 45 wells.

Other

In 2004, Talisman drilled a successful gas well in Central Alberta, which tested at 18 mmcf/d. Production from this well is planned to commence at approximately 15 mmcf/d in the first quarter of 2005. Mineral rights have been secured on five sections of land surrounding this well. The Company expects that capital spending in 2005 in the Central Alberta area will be approximately \$20 million.

The Company is also exploring the potential for producing coal bed methane on lands in Alberta and British Columbia. Appraisal drilling and prospect evaluation commenced in 2002. The main focus in 2005 will continue to be the development of coal bed methane horizontal drilling and production technology to determine large-scale commercial viability. The Company expects that capital spending in 2005 in this area will be approximately \$23 million, and plans to participate in drilling seven wells.

Talisman's gas production in Turner Valley (a portion of the Southern Alberta Foothills core area), doubled in 2004 with the commissioning of the Little Chicago gas plant in January 2004. Talisman holds a 100% working interest in this gas plant. Successful multi-leg horizontal oil well drilling in Turner Valley in conjunction with a new oil battery is expected to increase liquids production in 2005. The nitrogen injection pilot project that has been underway for approximately two years is demonstrating increased oil production but requires further evaluation prior to planning of commercial expansion. The Company expects that capital spending in 2005 in the Southern Alberta Foothills area will be approximately \$82 million, and plans to participate in drilling approximately 21 wells.

Talisman Midstream Operations

The Company's Midstream Operations department operates over 640 kilometres of gathering pipelines, interconnected with multiple processing plants and downstream pipelines with an average throughput of approximately 390 mmcf/d in 2004. The Company's 100% owned Central Foothills Gas Gathering System ("CFGGS"), the Columbia Minehead Gas Gathering System, and other midstream pipeline and processing

assets ranging from 75% to 100% ownership, support the exploration and development program in both the Alberta Foothills and Edson areas and also provide transportation processing revenues. The Company spent approximately \$20.7 million to expand and optimize midstream assets in 2004. In 2005, the Company plans to spend \$32 million to extend the CFGGS and Cutbank/Musreau pipeline systems and \$22 million to add 75 mmcf/d of new processing capacity along the CFGGS and 30 mmcf/d at the Cutbank/Musreau pipeline.

Synthetic Oil

Talisman holds a 1.25% indirect interest in the Syncrude oil sands project (the "Syncrude Project") through the Canadian Oil Sands Limited Partnership. The Syncrude Project is a joint venture established to recover shallow deposits of tar sands using open pit mining methods to extract the crude bitumen and employing delayed coking technology to upgrade it to a high-quality, light (32 degree, API) sweet, synthetic crude oil. The Syncrude Project, located near Fort McMurray, Alberta, exploits portions of the Athabasca oil sands deposit to produce Syncrude Sweet Blend® ("SSB"). Syncrude is in the final phases of the third stage of a large expansion program. Stage three is expected to cost \$7.8 billion to increase capacity from the current level of 90 mmbbls per year to approximately 129 mmbbls per year. The expansion is expected to start-up in the fourth quarter of 2005 with production ramping up to full capacity by 2008. Since its start-up in 1978, Syncrude has produced almost 1.6 billion barrels of synthetic crude oil. In 2004, Syncrude shipped 87 mmbbls of SSB, and approximately 13% of Canada's crude oil needs are supplied by this joint venture. Talisman expects that its capital spending in 2005 related to the Syncrude Project, including expansion and sustaining capital, will be approximately \$25 million.

UNITED STATES

Fortuna Energy Inc. ("Fortuna"), an indirect wholly owned subsidiary of Talisman, increased production primarily from deep horizontal Trenton-Black River formation gas wells in the Appalachia area from 60 mmcf/d in 2003 to 89 mmcf/d in 2004, with a record peak of 126 mmcf/d on January 12, 2005. In the second quarter of 2004, Fortuna expanded its Appalachia interests through the acquisition of an average 73% working interest in Belden & Blake Corporation's Trenton-Black River interests. This acquisition effectively doubled Fortuna's land holdings in the area. Fortuna expects that capital spending in 2005 in the Appalachia area will be approximately \$102 million, and plans to participate in drilling 23 wells.

Talisman's indirect wholly owned subsidiary, Fortuna (US) L.P., continues to explore for oil and gas in the western U.S. Fortuna (US) L.P. expects capital spending in 2005 in the U.S. will be approximately \$14 million, and plans to participate in drilling two wells.

LANDHOLDINGS, PRODUCTION AND PRODUCTIVE WELLS

The following tables set forth Talisman's North American landholdings, production and productive wells as at December 31, 2004.

Property	Undeveloped Acreage (thousand acres)		Developed Acreage (thousand acres)		Total Acreage (thousand acres)	
	Gross	Net	Gross	Net	Gross	Net
North America						
Canada						
Greater Arch	1,499.8	1,061.7	710.4	340.4	2,210.2	1,402.1
Deep Basin	479.7	285.9	234.2	56.6	713.9	342.5
Alberta Foothills	442.3	236.7	183.3	72.1	625.6	308.8
Edson Area	831.0	579.0	906.8	466.5	1,737.8	1,045.5
Monkman/BC Foothills	700.3	396.3	79.6	40.8	779.9	437.1
Ontario	752.5	521.0	365.3	236.8	1,117.8	757.8
Chauvin	75.0	47.7	80.4	70.8	155.4	118.5
Other ¹	4,894.8	1,162.1	731.9	497.2	5,626.7	1,659.3
United States²	1,506.3	1,217.5	27.5	25.8	1,533.8	1,243.3
Total³	11,181.7	5,507.9	3,319.4	1,807.0	14,501.1	7,314.9
Synthetic Oil	477.3	84.8	11.0	1.5	488.3	86.3

Notes:

1 "Other" includes minor properties in Canada, but excludes Scotian Slope, synthetic oil in Alberta and coal leases in British Columbia.

2 "United States" excludes Alaska.

3 Fee acreage comprises 5% of the total gross number of acres and 6% of the net number of acres. Fee acreage for Gross Undeveloped totals 622.1; Gross Developed totals 63.0; Net Undeveloped totals 449.1; and Net Developed totals 22.0.

Property	Oil & Liquids Production (bbls/d)		Natural Gas Production (mmcf/d)		Productive Wells ^{2,3,4} as at December 31, 2004	
	Gross ⁵	Net ⁵	Gross ⁶	Net ⁶	Gross	Net
North America						
Canada						
Greater Arch	7,387	5,850	158.5	122.4	1,341	744.1
Deep Basin	2,080	1,830	60.8	44.6	468	90.8
Alberta Foothills	227	170	151.0	116.9	195	84.8
Edson Area	4,393	3,325	208.5	171.2	985	696.9
Monkman/BC Foothills	—	—	70.5	56.9	62	35.7
Ontario	1,749	1,473	16.4	13.8	803	566.4
Chauvin	15,665	13,121	16.0	13.0	1,302	1,195.3
Other ¹	22,892	17,534	114.3	99.2	4,802	1,834.8
United States⁷	—	—	89.1	76.7	50	46.5
Total	54,393	43,303	885.1	714.7	10,008	5,295.3
Synthetic Oil	2,999	2,868	—	—	—	—

Notes:

1 "Other" includes minor producing properties in Canada.

2 "Productive Wells" means producing wells and wells capable of production.

3 Includes wells containing multiple completions as follows:

Oil Wells	Gas Wells
Gross	542.0
Net	273.0

4 One or more completions in the same bore hole is counted as one well. A well is classified as an oil well if one of the multiple completions in a given well is an oil completion.

5 Includes approximately 692 bbls/d of liquids attributable to royalty interests and net profits interests.

6 Includes approximately 10.6 mmcf/d of gas attributable to royalty interests and net profits interests.

7 "United States" excludes Alaska.

INTERNATIONAL AND FRONTIER

Talisman's international and frontier strategy concentrates on opportunities in sedimentary basins that have a proved hydrocarbon system and significant reserves and production potential. Talisman has developed its international business through exploration, development drilling and corporate and property acquisitions in all reporting segments.

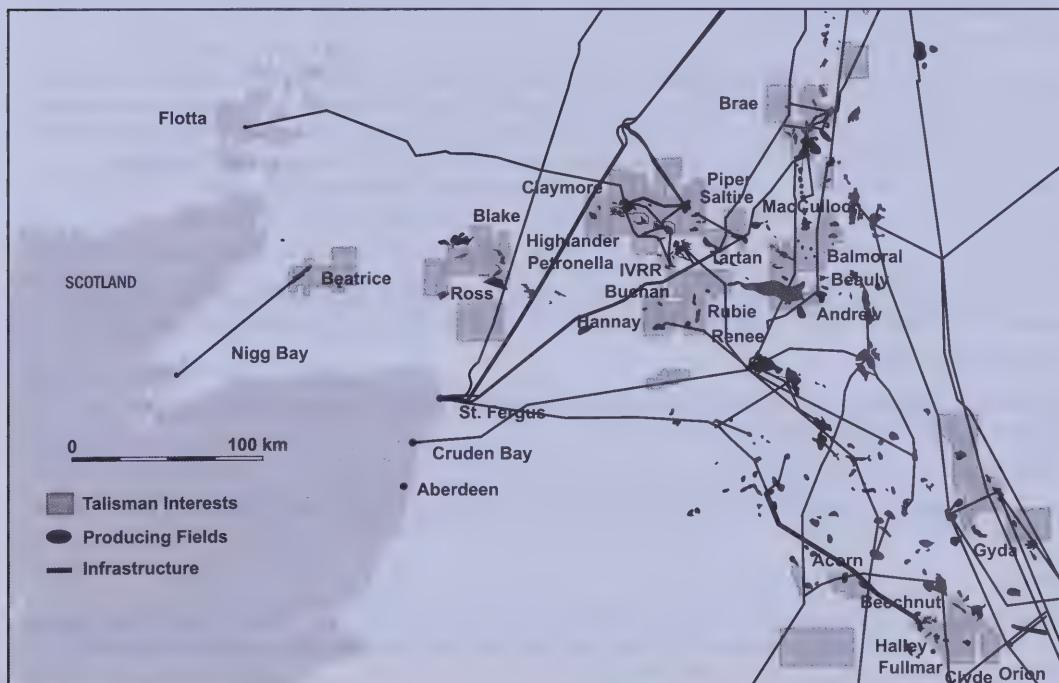
Talisman produces substantial oil and gas volumes from the North Sea, with ongoing exploration and development activities in the area. Talisman is also active in Southeast Asia, where development projects in Indonesia, Malaysia and Vietnam are expected to produce significant oil and gas production growth. Talisman also has producing interests in Algeria and Trinidad and exploration interests in other areas including Alaska, Colombia, Peru, Qatar, Falkland Islands and Papua New Guinea.

NORTH SEA

Talisman's North Sea strategy is to develop commercial hubs around core operated properties and infrastructure, and to deliver growth by extending the life of these assets through low risk development opportunities, sub-sea tie-back developments, exploration, secondary recovery, cost reduction and increased third-party tariff revenue. The Company also has a portfolio of non-operated assets.

Talisman's North Sea assets, which are held principally by Talisman Energy (UK) Limited, Talisman North Sea Limited and Talisman Energy Norge AS, include producing fields and exploration acreage in several areas of the North Sea. Talisman has three core North Sea operating areas: the Mid-North Sea Area ("MNS Area"), the Flotta Catchment Area ("FCA") and Norway. Talisman also has a number of non-operated interest properties. At the end of 2004, Talisman operated approximately 65% of its North Sea production.

In 2005, Talisman's capital program in the North Sea is expected to be approximately \$1,025 million, with \$153 million directed to exploration spending and \$872 million directed to development. The Company's 2005 North Sea drilling program includes participation in up to 10 exploration and 30 development wells (including service wells).



MNS Area Properties

Talisman holds interests ranging from 12% to 100% in a number of production facilities and pipelines in the MNS Area.

Clyde Area

The Company owns various operated interests in the Clyde area, including a 95% operated interest in the Clyde production platform, a 94% operated interest in the Orion field and a 13% non-operated interest in the Fulmar production platform. The Orion tie-back to Clyde was completed in 1999. In 2004, Talisman drilled two development wells on the Clyde field. In January 2004, operations finished on the Eta-2 30/17b exploration well with the wellbore being plugged and abandoned. Talisman made an oil discovery by drilling the Delta well at Block 30/17b. An unsuccessful well was drilled on the Flyndre prospect at Block 30/14-2. In December 2004, the Company spud the Jenny exploration well at Block 30/13c, which was drilling at year end 2004. In 2005, Talisman will drill the Medwin Terrace exploration prospect at Block 30/17b. The 2005 development program includes the drilling of two development wells, one at Clyde and one at Orion, and water injection facility upgrades on the Clyde platform. The Company expects that capital spending in 2005 in the Clyde area will be approximately \$108 million.

Buchan Area

The Company has an average 99% operated working interest in the Buchan field, the Buchan floating production platform and the tie-in to the Forties pipeline. Talisman produced its first oil from the Hannay field in March 2002, where it operates with a 99% interest. In October 2002, Talisman drilled the J1 exploration well and in November 2003, the J5 exploration well, both resulting in significant new oil discoveries adjacent to the Buchan field. The discoveries were appraised by drilling the Tweedsmuir appraisal well in July 2004. Talisman holds a 94% interest in the field. In 2004, the Tweedsmuir development was approved and is the main focus of development activity in 2005, including the drilling of three Tweedsmuir development wells. The Company intends to start water injection into the Buchan field in 2005. In addition, the Company intends to drill the North Buchan J2 exploration prospect. The Company expects that capital spending in 2005 in the Buchan area will be approximately \$474 million.

Ross/Blake Area

In the Ross/Blake area, Talisman has a 69% operated working interest in the Ross field and a 54% non-operated interest in the Blake field, both fields being sub-sea tie-backs to Bleo Holm, the leased Floating, Production, Storage and Offloading vessel. Production from the Blake Flank project commenced in September 2003. Also in 2003 a consortium, including Talisman (37.5%), was awarded Blocks 19/3 and 19/4 in the Twenty-first Licensing Round and a separate Talisman consortium was awarded Block 13/26b as an out-of-round award. Two unsuccessful exploration wells were drilled in the Ross/Blake area in 2004. The Company expects that capital spending in 2005 in the Ross/Blake area will be approximately \$40 million, and plans to participate in drilling one exploration well and one development well.

Beatrice Area

Talisman holds a 100% operated interest in the Beatrice Alpha, Bravo and Charlie platforms, as well as the Beatrice/Nigg pipeline and the Nigg terminal. In 2004, Talisman received approval to construct an offshore wind farm demonstrator project adjacent to the Beatrice field.

Other MNS Area Properties

Talisman holds a 60% operated interest in the Beauly field located in Block 16/21c of the MNS. Beauly is a sub-sea tie-back to the Balmoral field. No capital spending is planned for Beauly in 2005.

FCA Properties

Talisman holds interests ranging from 13% to 100% in a number of production facilities and pipelines in the FCA, including an 80% interest in the Flotta terminal.

Piper Area

Talisman holds an 80% operated working interest in the Piper, Saltire, Chanter and Iona fields. In addition, Talisman has a 13% non-operated interest in the MacCulloch field. The Company expects that capital spending in 2005 in the Piper area will be approximately \$70 million, including participation in one exploration and two development wells.

Claymore Area

In the Claymore area, Talisman holds a 72% and an 80% operated working interest in the Claymore and Scapa fields, respectively. In 2004, Talisman drilled three development wells on the Claymore field. The Company expects that capital spending in 2005 in the Claymore area will be approximately \$89 million, which includes funding for three development wells.

THP Area

Talisman's subsidiary holds a 100% operated working interest in the Tartan field and the Highlander and Petronella sub-sea tie-back satellite fields; Talisman also holds a 67% operated interest in the Galley field (collectively, "THP Area"). In 2003, Talisman made the North Tartan discovery and in August 2004 production commenced from the field. Also in 2004, Talisman drilled one development well on the Galley field and one unsuccessful exploration well in the THP Area. The Company expects that capital spending in 2005 in the THP Area will be approximately \$86 million, and plans to participate in drilling one exploration and two development wells.

Other FCA Properties

Talisman's subsidiary holds a 78% and 41% operated working interest in the Renee and Rubie fields, respectively. Both fields are sub-sea tie-backs to the Ivanhoe/Rob Roy field in which Talisman has a 23% non-operated interest. Capital spending by the Company in 2005 is expected to be minimal.

Norway

In September 2003, one of Talisman's indirect wholly owned subsidiaries acquired the 61% operated interest in the Gyda field and associated assets. Two additional licences were awarded later in 2003. In February 2004, Talisman's subsidiary acquired an interest in two more licences, including the Blane discovery. In December 2004, the subsidiary was awarded interests in five more licences in the Norwegian sector of the North Sea. Three of these licenses give Talisman an operated interest in lands in close proximity to its earlier acquired lands. The remaining two licences are for non-operated interests in lands further north, in the Viking Graben province. In February 2005, Talisman Energy (UK) Limited acquired all of the outstanding shares in Pertra A.S., resulting in the addition of the producing Varg field and undeveloped Varg South field as well as several blocks of operated and non-operated exploration acreage in the Norwegian sector of the North Sea. Production from the Varg oilfield is expected to be approximately 10,000 bbls/d net to Talisman. The Company expects that capital spending in 2005 in the Norwegian sector of the North Sea will be approximately \$121 million, and plans to participate in drilling two exploration and two development wells.

Non-Operated Interest Properties

Brae Area

Talisman's non-operated producing interests in the Brae area range from 13% to 18%. Talisman also holds an 8% non-operated interest in the Brae-St. Fergus gas pipeline and terminal. Production from the Brae field commenced in 2003 and in 2004 Talisman participated in one development well in the Brae area. The Company expects that capital spending in 2005 at Brae will be approximately \$7 million, and plans to participate in drilling two development wells.

Other Non-Operated Interest Properties

A subsidiary of Talisman holds various non-operated producing interests including: Balmoral (15%), Stirling (15%), Glamis (15%), Andrew (3%), Wytch Farm (5%), Wareham (5%), Alba (2%) and Caledonia (3%) fields. In 2004, Talisman participated in drilling one exploration well and 15 development wells. The Company expects that capital spending in 2005 at its other non-operated interest properties will be approximately \$28 million, and plans to participate in drilling two exploration and 13 development wells.

Talisman's subsidiary holds non-operated producing interests in the Netherlands sector of the North Sea ranging from 2% to 20%. The Company's interests are in the E, F, G and K sectors.

In the German sector, Talisman's subsidiary holds a 50% non-operated working interest in one offshore licence, covering portions of blocks C, D, G and H.

Landholdings, Production and Productive Wells

The following tables set forth Talisman's North Sea landholdings, production and productive wells as at December 31, 2004.

Property	Undeveloped Acreage (thousand acres)		Developed Acreage (thousand acres)		Total Acreage (thousand acres)	
	Gross	Net	Gross	Net	Gross	Net
Mid-North Sea Area						
Clyde Area	343.6	151.2	26.4	21.5	370.0	172.7
Buchan Area	326.8	130.1	19.9	19.4	346.7	149.5
Ross/Blake Area	315.9	156.8	17.8	12.3	333.7	169.1
Beatrice Area	47.6	47.6	11.0	11.0	58.6	58.6
Other MNS	66.5	28.3	—	—	66.5	28.3
Flotta Catchment Area						
Piper Area	122.7	63.0	37.9	24.6	160.6	87.6
Claymore Area	88.2	78.1	23.6	18.6	111.8	96.7
THP Area	113.1	64.0	14.5	14.5	127.6	78.5
Other FCA	13.5	3.8	15.6	7.7	29.1	11.5
Norway	982.2	524.9	33.9	20.7	1,016.1	545.6
Non-Operated Interests						
Brae Area	95.7	15.5	22.7	4.1	118.4	19.6
Other Non-Operated Interests ¹	1,936.1	857.2	384.5	92.9	2,320.6	950.1
Total	4,451.9	2,120.5	607.8	247.3	5,059.7	2,367.8

Note:

1 "Other Non-Operated Interests" includes the Netherlands and Germany.

Property	Oil & Liquids Production (bbls/d)		Natural Gas Production (mmcf/d)		Productive Wells ^{1,2,3} as at December 31, 2004	
	Gross	Net	Gross	Net	Gross	Net
Mid-North Sea Area						
Clyde Area	14,215	14,215	1.8	1.8	24	22.4
Buchan Area	8,814	8,620	0.4	0.4	11	10.9
Ross/Blake Area	20,674	20,674	6.5	6.5	19	11.3
Beatrice Area	4,270	4,270	—	—	28	28.0
Other MNS	1,093	1,093	0.1	0.1	1	0.6
Flotta Catchment Area						
Piper Area	16,885	16,883	0.8	0.8	34	21.9
Claymore Area	21,499	21,572	—	—	36	27.0
THP Area	13,896	13,880	—	—	27	24.7
Other FCA	3,063	3,063	—	—	14	4.0
Norway	5,862	5,862	3.4	3.4	19	11.4
Non-Operated Interests						
Brae Area	7,111	6,228	83.4	75.1	75	10.3
Other Non-Operated Interests	4,479	4,408	17.3	17.3	160	9.2
Total	121,861	120,768	113.7	105.4	448	181.7

Notes:

1 "Productive Wells" means producing wells and wells capable of production.

2 Includes wells containing multiple completions as follows:

Oil Wells	Gas Wells
Gross	19.0
Net	1.5

3 One or more completions in the same bore hole is counted as one well. A well is classified as an oil well if one of the multiple completions in a given well is an oil completion.

SOUTHEAST ASIA

The Company's interests in Southeast Asia include operations in Indonesia, Malaysia and Vietnam and exploration acreage in Papua New Guinea.



Indonesia

In Indonesia, Talisman and its subsidiaries are pursuing a strategy of continued exploitation of existing oil properties and the development of the major natural gas discoveries at Corridor to deliver future production growth.

Talisman plans to spend approximately \$75 million in Indonesia in 2005, primarily to participate in drilling two exploration wells and undertake expansion of the Corridor gas facilities.

Corridor PSC

Talisman (Corridor) Ltd. ("TCL"), an indirect wholly owned subsidiary of Talisman, has a 36% non-operated interest in the Corridor production sharing contract ("Corridor PSC Block") and field production facilities.

In the Corridor PSC Block, TCL's gas sales to PT Caltex Pacific Indonesia ("Caltex") commenced in 1998 to the Duri steam flood project and were augmented by a further gas sales agreement with Caltex in 2000. In September 2003, TCL commenced gas sales to Gas Supply Pte. Ltd., located in Singapore, under the terms of a 20-year gas sales agreement. Talisman Transgasindo Ltd. has an indirect 6% interest in the Grissik to Duri pipeline and in the Grissik to Singapore pipeline completed in 2003.

In August 2004, ConocoPhillips (Grissik) Ltd., as representative of the Corridor PSC contractors, entered into an agreement for the sale of gas to PT Perusahaan Gas Negara (Persero), Tbk, the Indonesian national gas transmission and distribution company. This agreement enables the sale of 2.3 trillion cubic feet (gross) of natural gas from the Corridor PSC Block to the West Java market over a 17-year period commencing in the first quarter of 2007. The Suban Phase 2 gas expansion project was approved in 2004 and includes the installation of two new 200 mmcf/d capacity gas trains, additional pipelines and infrastructure in the Corridor PSC Block.

In 2004, two unsuccessful non-operated exploration wells were drilled in the Corridor PSC Block. No further exploration activity is planned for the Corridor PSC Block in 2005.

The Company expects that capital spending in 2005 in the area will be approximately \$63 million, primarily for Suban Phase 2 gas expansion.

Other Properties

Talisman and its subsidiaries hold a 40% non-operated interest in the Corridor technical assistance contract (the "Corridor TAC Block"), a 50% operated interest in the Ogan Komering production sharing contract (the "OK Block") and a 25% non-operated interest in the offshore Nila production sharing contract (the "Nila Block").

The enhanced oil recovery contract at Tanjung, in which Talisman held a 50% interest, expired in November 2004 and the enhanced oil recovery contract at Jambi, in which Talisman held a 40% interest, expired in January 2005.

In December 2004, Talisman sold Talisman (Madura) Ltd., which holds a 25% non-operated interest in the Madura Offshore production sharing contract. Also in December 2004, Talisman participated in an unsuccessful exploration well on the Nila Block.

The 2005 program includes drilling up to two exploration wells on the OK Block. The Company expects that capital spending in 2005 in the area will be approximately \$12 million.

Malaysia and Vietnam

In Malaysia and Vietnam, the Company's strategy is to develop oil and natural gas fields and to deliver production growth through exploration and development. The Company operates three of its four working interest properties in Malaysia and Vietnam, being Block PM-3 CAA/Block 46-Cai Nuoc, Block PM-305 and Block PM-314. Block 46/02 is operated by a joint operating company. Total Malaysia and Vietnam capital spending in 2005 is expected to be \$235 million. In addition, the Vietnam Oil and Gas Corporation advised Talisman Vietnam Limited ("TVL") in December 2004 that TVL's tender for Block 15-2/01, offshore Vietnam had been successful. The award is subject to agreement of a Petroleum Contract for Block 15-2/01.

Block PM-3 CAA and 46-Cai Nuoc

Two of Talisman's indirect wholly owned subsidiaries hold interests in Block PM-3 CAA and associated production facilities in Malaysia and Vietnam: Talisman Malaysia Limited (26.4%) and Talisman Malaysia (PM3) Limited (15%). Talisman Vietnam Limited, another indirect wholly owned subsidiary, holds a 33.2% operated interest in the adjacent Block 46-Cai Nuoc area in Vietnam. Part of that area and part of the PM-3 CAA were unitized in 1998 to become the East Bunga Kekwa-Cai Nuoc unit.

In 2003, the Company completed Phase 2/3 of the PM-3 CAA Project, developing a number of fields located in the southeast portion of the block. The project involved the installation of four new wellhead platforms, a central processing platform, a compression annex platform, a floating storage and offloading vessel and interfield pipelines. Phase 2/3 oil production started in September 2003. Natural gas is sold under a long-term contract to Petroliam Nasional Berhad and Vietnam Oil and Gas Corporation, the national oil and gas companies of Malaysia and Vietnam, respectively.

In 2004, Phase 2/3 development drilling continued and the Company had a successful exploration program in the PM-3 CAA and Block 46-Cai Nuoc areas. At year end 2004 the Company was drilling a sidetrack to appraise a new West Bunga Orkid oil discovery. Development studies for these areas are underway.

The Company expects that capital spending in 2005 in the area will be approximately \$137 million, and plans to participate in drilling two exploration and appraisal wells and five development wells (including service wells).

Block PM-305

Talisman Malaysia Limited holds a 60% operated working interest in Block PM-305 production sharing contract offshore Malaysia, approximately 250 kilometres southeast of Block PM-3 CAA. In 2003, the Company made an oil discovery 10 kilometres south of the Angsi field. Facilities construction is currently underway and South Angsi development drilling has begun. First oil is planned for mid 2005. Talisman drilled one unsuccessful exploration well on the block in 2004.

The Company expects that capital spending in 2005 in the area will be approximately \$81 million, and plans to participate in drilling up to six exploration and nine development wells (including service wells).

Block PM-314

In March 2004, Talisman Malaysia Limited signed a production sharing contract for offshore Block PM-314 in Malaysia. Talisman Malaysia Limited holds a 60% operated working interest in that production sharing contract. The block covers 2.3 million acres immediately west of Block PM-305. In 2004, Talisman acquired a 3D seismic survey over part of the block and interpretation of that data is underway. The Company expects that capital spending in 2005 in the area will be approximately \$6 million, and plans to participate in drilling one exploration well.

Block 46/02

In December 2002, Talisman (Vietnam 46/02) Ltd. signed a Petroleum Contract for a 30% interest in Block 46/02 in Vietnam. Talisman (Vietnam 46/02) Ltd. holds a 30% interest in the Truong Son Joint Operating Company ("JOC"), with the remainder held by PetroVietnam Exploration and Production Company (40%) and Petronas Carigali Overseas SDN BHD (30%), the wholly owned exploration and production subsidiaries of the national petroleum companies of Vietnam and Malaysia, respectively. In 2004, the Company drilled two more exploration wells. One was unsuccessful and the other discovered oil, which is being evaluated for potential development. The Company expects that capital spending in 2005 in Block 46/02 will be approximately \$11 million, and plans to participate in drilling up to two exploration wells.

Papua New Guinea

The Company holds an operated interest in offshore Papua New Guinea Block PRL-1 (48%), which contains a natural gas discovery, and in Block PPL-244 (35%), which is exploration acreage.

Landholdings, Production and Productive Wells

The following tables set forth Talisman's Southeast Asia landholdings, production and productive wells as at December 31, 2004.

Property	Undeveloped Acreage (thousand acres)		Developed Acreage (thousand acres)		Total Acreage (thousand acres)	
	Gross	Net	Gross	Net	Gross	Net
Indonesia						
Corridor PSC	407.6	146.8	150.5	54.2	558.1	201.0
Other ¹	1,603.5	473.8	117.2	48.0	1,720.7	521.8
Malaysia and Vietnam						
Block PM-3 CAA and 46-Cai Nuoc	129.7	52.6	224.4	92.5	354.1	145.1
Block PM-305	543.6	326.2	—	—	543.6	326.2
Block PM-314	2,309.8	1,385.9	—	—	2,309.8	1,385.9
Block 46/02	3,023.6	907.1	—	—	3,023.6	907.1
Papua New Guinea	858.2	325.1	—	—	858.2	325.1
Total	8,876.0	3,617.5	492.1	194.7	9,368.1	3,812.2

Note:

1 "Other" includes Corridor TAC Block, Tanjung Block, Jambi Block, Ogan Komering Block and Nila PSC Block. The enhanced oil recovery contract at Jambi expired in January 2005, but is included in this table as the Company's interest was still in effect at year end 2004.

Property	Oil & Liquids Production (bbls/d)		Natural Gas Production (mmcf/d)		Productive Wells ^{2,3,4} as at December 31, 2004	
	Gross	Net ¹	Gross	Net ¹	Gross	Net
Indonesia						
Corridor PSC	2,637	948	133	99.3	120	42.9
Other ⁵	10,618	5,351	8	4.8	590	234.4
Malaysia and Vietnam						
Block PM-3 CAA and 46-Cai Nuoc	22,389	14,585	119	89.9	40	16.3
Block PM-305	—	—	—	—	—	—
Block PM-314	—	—	—	—	—	—
Block 46/02	—	—	—	—	—	—
Papua New Guinea	—	—	—	—	—	—
Total	35,644	20,884	260	194.0	750	293.6

Notes:

1 Interests of the Indonesian, Malaysian and Vietnam governments, other than working interests or income taxes, are accounted for as royalties.

2 "Productive Wells" means producing wells and wells capable of production.

3 Includes wells containing multiple completions⁴ as follows:

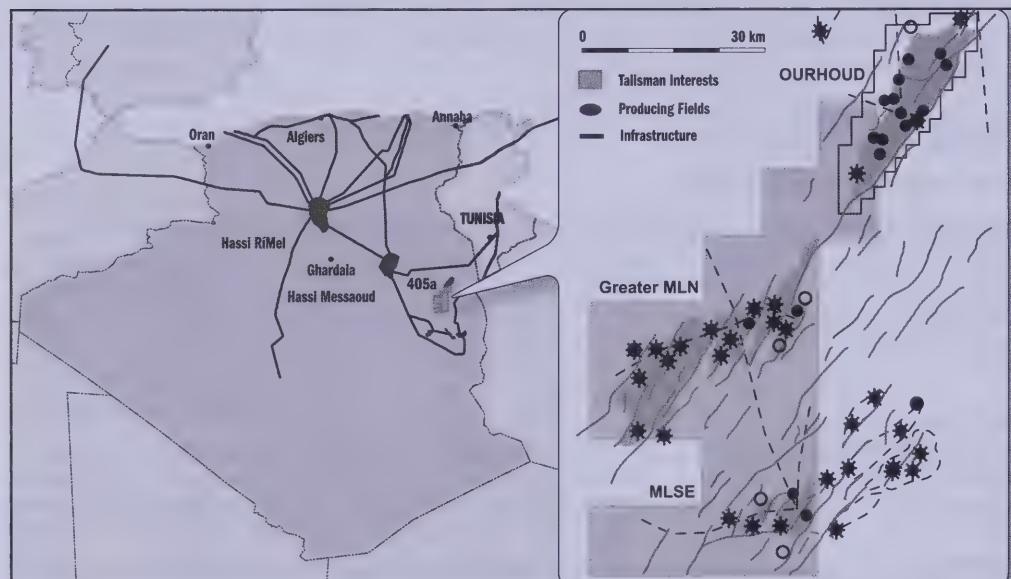
Oil Wells	Gas Wells
Gross	99.0
Net	39.8

4 One or more completions in the same bore hole is counted as one well. A well is classified as an oil well if one of the multiple completions in a given well is an oil completion.

5 "Other" includes the Corridor TAC Block, Tanjung Block, Jambi Block and OK Block. The enhanced oil recovery contract at Jambi expired in January 2005, but is included in this table as the Company's interest was still in effect at year end 2004.

ALGERIA

Talisman (Algeria) B.V., an indirect wholly owned subsidiary of Talisman, holds a 35% non-operated working interest in Block 405a and Block 215 under a production sharing contract with Algeria's National Oil Company, Sonatrach. Block 405a contains the Greater Menzel Lejmat North ("Greater MLN") field as well as a portion of the Ourhoud field.



Greater MLN

In 2003, Phase 1 of the Greater MLN development project was completed with production commencing in June 2003. Greater MLN facilities include a central processing facility ("CPF") and compression for gas injection. Crude oil is pipelined to the Mediterranean coast for export. Phase 2 expansion of the CPF for full pressure maintenance is currently under review, as is the development of the Menzel Lejmat South East field located to the south of Block 405a. The Company expects to relinquish a portion of Block 405a and all of Block 215 in 2005.

Ourhoud

Production at the Ourhoud field (Talisman 2%) commenced in December 2002 with first oil sales in 2003. Production from Ourhoud is anticipated to remain at plateau levels throughout 2005.

The Company expects that capital spending in 2005 in Algeria will be approximately \$55 million, which includes funding for two exploration wells and 14 development wells (including service wells).

Landholdings, Production and Productive Wells

The following tables set forth Talisman's Algerian landholdings, production and productive wells as at December 31, 2004.

Property	Undeveloped Acreage (thousand acres)		Developed Acreage (thousand acres)		Total Acreage (thousand acres)	
	Gross	Net	Gross	Net	Gross	Net
Greater MLN¹	330.5	115.7	11.2	3.9	341.7	119.6
Ourhoud	—	—	65.6	1.3	65.6	1.3
Other²	420.0	147.0	—	—	420.0	147.0
Total	750.5	262.7	76.8	5.2	827.3	267.9

Notes:

1 "Greater MLN" includes MLSE acreage.

2 "Other" includes Block 215 acreage.

Property	Oil & Liquids Production (bbls/d)		Natural Gas Production (mmcf/d)		Productive Wells ² as at December 31, 2004	
	Gross	Net ¹	Gross	Net ¹	Gross	Net
Greater MLN	9,053	5,544	—	—	14	4.9
Ourhoud	4,484	2,794	—	—	28	0.6
Total	13,537	8,338	—	—	42	5.5

Notes:

1 Interests of the Algerian government, other than working interests or income taxes, are accounted for as royalties.

2 "Productive Wells" means producing wells and wells capable of production.

TRINIDAD

Talisman holds a 25% non-operated interest in the Angostura development portion of Block 2(c) and a 36% interest in the balance of Block 2(c) located to the south and retained for further exploration. The 36% interest is comprised of a 25% original interest plus an 11% share of the interest of a non-participating co-venturer, subject to a reinstatement right.

The Greater Angostura Project located in Block 2(c) was sanctioned in 2003 and in 2004 the installation of all field facilities was completed, including a central processing platform and three wellhead platforms. Oil production commenced in January 2005 with oil exported to a new onshore oil terminal located west of Galeota Point in the southeast of Trinidad. In 2004, the Company also drilled one successful exploration well on the block.

Talisman's wholly owned subsidiary, Talisman (Trinidad Block 3a) Ltd., holds a 30% interest in the production sharing contract on Block 3(a), immediately to the east of Block 2(c). In February 2004, the Company finished drilling the Puncheon-1 exploration well, which tested oil at a rate of 4,443 bbls/d. The well has not been tied in.

In 2002, Talisman (Trinidad) Petroleum Ltd., a wholly owned subsidiary, acquired the right to earn an operated 65% interest in the onshore Eastern Block. This block is comprised of approximately 108 thousand gross acres (44 thousand hectares), of which the Government of Trinidad holds the mineral rights to approximately 95 thousand acres (38.5 thousand hectares) and the balance is freehold title. In 2004, the Company completed its 3D seismic acquisition covering much of the Eastern Block. Seismic data is being interpreted to define a drilling program which will commence in 2005.

The Company expects that capital spending in 2005 in Trinidad will be approximately \$100 million, and plans to participate in drilling up to eight exploration and eight development wells (including service wells).

COLOMBIA

In Colombia, Talisman (Colombia) Oil & Gas Ltd., a wholly owned subsidiary of Talisman, is focusing on an exploration program in a known hydrocarbon basin.

The subsidiary holds non-operated interests in three blocks in the Upper Magdalena Valley region, including Acevedo (70%), Altamizal (30%) and Huila Norte (30%). In 2004, 50% of the Huila Norte Block was relinquished. The balance of that block, and the Acevedo and Altamizal blocks, commenced relinquishment in 2004 and are expected to be fully relinquished in 2005.

In the Llanos Foothills region of north-central Colombia, the subsidiary holds a 30% non-operated interest in the Tangara and Mundo Nuevo blocks. In July 2004, the Tangara-1 exploration well was spudded on the Tangara Block and the well was drilling at year end.

The Company expects that capital spending in 2005 in Colombia will be approximately \$8 million in order to finish operations at Tangara-1 and to fund ongoing geologic and geophysical work.

PERU

In 2004, Talisman (Peru) Ltd., a wholly owned subsidiary of Talisman, acquired a 25% non-operated interest in Peru's Block 64 in the Marañon Basin. An exploration well drilled in 2004, encountered drilling problems and was unable to reach the target formation.

The Company expects that capital spending in 2005 in Peru will be approximately \$13 million, and plans to participate in drilling one exploration well, which was spud in late January 2005.

QATAR

Talisman Energy (Qatar) Inc., a wholly owned subsidiary of Talisman, holds a 100% interest in an Exploration and Production Sharing Agreement for offshore Block 10 in Qatar. During 2004, the Company's subsidiary completed a 3D seismic acquisition on the block. Interpretation of that data is expected to continue into 2005.

The Company expects that capital spending in 2005 in Qatar will be approximately \$15 million. The Company plans to drill its first exploration well in late 2005.

ALASKA

In June 2003, the Company's indirect wholly owned subsidiary, FEX L.P. ("FEX") (formerly Fortuna Exploration LLP), entered into an agreement with Total E&P USA, Inc. ("Total"), through which the Company earned a 30% interest in certain lands in the Caribou Region of the National Petroleum Reserve – Alaska ("NPRA"). This represented the Company's initial entry into Alaska. In October 2004, the Company entered into a further agreement with Total whereby FEX acquired a 100% working interest in the Caribou lands. In June 2004, FEX participated in a lease sale covering the Northwest Planning Area of the NPRA, acquiring a 100% interest in over 250,000 acres of land. In October 2004, FEX was successful at another lease sale, acquiring approximately 101,000 acres of State lands in the offshore Harrison Bay area. FEX expects capital spending in 2005 in the Alaska area will be approximately \$22 million in 2005, primarily to conduct geologic and geophysical work to further evaluate these newly acquired lands.

OTHER

Talisman's strategy is to expand activity in core producing areas and to add new ventures where appropriate. The Company actively investigates new ventures outside core producing areas.

PRODUCTIVE WELLS AND ACREAGE

The following table shows the number of productive wells¹ in which the Company had a working interest, as well as developed and undeveloped acres assignable to such wells, as of December 31, 2004. Undeveloped acreage is considered to be those lease acres on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas regardless of whether or not such acreage contains proved reserves.

		Productive Wells		Developed Acres	Undeveloped Acres
		Oil Wells ²	Gas Wells ²		
North America³					
Gross		5,351.0	4,657.0	3,330.4	11,659.0
Net		2,807.7	2,487.5	1,808.5	5,592.7
North Sea					
Gross		424.0	24.0	607.8	4,451.9
Net		178.9	2.8	247.3	2,120.5
Southeast Asia					
Gross		710.0	40.0	492.1	8,876.0
Net		279.0	14.6	194.7	3,617.5
Algeria					
Gross		42.0	—	76.8	750.5
Net		5.5	—	5.2	262.7
Trinidad					
Gross		11.0	—	23.5	299.8
Net		2.8	—	5.9	130.1
Other⁴					
Gross		—	—	—	5,441.0
Net		—	—	—	2,675.6
Total					
Gross		6,538.0	4,721.0	4,530.6	31,478.2
Net		3,273.9	2,504.9	2,261.6	14,399.1

Notes:

1 "Productive Wells" means producing wells and wells capable of production.

2 Includes wells containing multiple completions as follows:

		Oil Wells	Gas Wells
2003	Gross	490.0	814.0
	Net	263.1	425.4
2004	Gross	542.0	970.0
	Net	273.0	516.6

One or more completions in the same bore hole is counted as one well. A well is classified as an oil well if one of the multiple completions in a given well is an oil completion.

3 "North America" includes synthetic oil.

4 "Other" includes Alaska, Colombia, Peru, Qatar, Falkland Islands and Scotian Slope.

DRILLING ACTIVITY

The following table sets forth the number of wells¹ Talisman has drilled and tested or participated in drilling and testing, and the net² interest of the Company in such wells for each of the last three fiscal years. The number of wells drilled refers to the number of wells completed at any time during the fiscal years, regardless of when drilling was initiated. The term "completion" refers to the installation of permanent equipment for the production of oil and gas, or, in the case of a dry hole, to reporting of abandonment to the appropriate agency.

Year Ended December 31, 2004	Exploration				Development				Total				
	Oil ³	Gas ³	Dry ⁴	Total	Oil ³	Gas ³	Dry ⁴	Total	Oil ³	Gas ³	Dry ⁴	Total	
North America													
Canada	Gross	16.0	123.0	15.0	154.0	121.0	301.0	23.0	445.0	137.0	424.0	38.0	599.0
	Net	13.4	64.0	11.5	88.9	66.9	183.0	18.6	268.5	80.3	247.0	30.1	357.4
United States ⁵	Gross	—	20.0	1.0	21.0	—	—	—	—	—	20.0	1.0	21.0
	Net	—	15.9	1.0	16.9	—	—	—	—	—	15.9	1.0	16.9
North Sea⁶	Gross	3.0	—	6.0	9.0	17.0	—	1.0	18.0	20.0	—	7.0	27.0
	Net	1.9	—	4.3	6.2	6.0	—	0.8	6.8	7.9	—	5.1	13.0
Southeast Asia													
Indonesia	Gross	—	—	2.0	2.0	9.0	—	—	9.0	9.0	—	2.0	11.0
	Net	—	—	0.7	0.7	3.8	—	—	3.8	3.8	—	0.7	4.5
Malaysia/ Vietnam	Gross	1.0	—	3.0	4.0	12.0	2.0	1.0	15.0	13.0	2.0	4.0	19.0
	Net	0.4	—	1.6	2.0	5.0	0.8	0.4	6.2	5.4	0.8	2.0	8.2
Algeria	Gross	—	—	—	—	3.0	—	—	3.0	3.0	—	—	3.0
	Net	—	—	—	—	0.1	—	—	0.1	0.1	—	—	0.1
Trinidad	Gross	1.0	1.0	—	2.0	11.0	—	1.0	12.0	12.0	1.0	1.0	14.0
	Net	0.3	0.3	—	0.6	2.8	—	0.3	3.1	3.1	0.3	0.3	3.7
Other⁷	Gross	—	—	4.0	4.0	—	—	—	—	—	—	4.0	4.0
	Net	—	—	1.6	1.6	—	—	—	—	—	—	1.6	1.6
Total	Gross	21.0	144.0	31.0	196.0	173.0	303.0	26.0	502.0	194.0	447.0	57.0	698.0
	Net	16.0	80.2	20.7	116.9	84.6	183.8	20.1	288.5	100.6	264.0	40.8	405.4

Year Ended December 31, 2003	Exploration				Development				Total				
	Oil ³	Gas ³	Dry ⁴	Total	Oil ³	Gas ³	Dry ⁴	Total	Oil ³	Gas ³	Dry ⁴	Total	
North America													
Canada	Gross	14.0	147.0	21.0	182.0	190.0	225.0	21.0	436.0	204.0	372.0	42.0	618.0
	Net	9.4	100.9	15.6	125.9	101.0	132.7	18.2	251.9	110.4	233.6	33.8	377.8
United States	Gross	—	6.0	—	6.0	—	—	—	—	—	6.0	—	6.0
	Net	—	4.2	—	4.2	—	—	—	—	—	4.2	—	4.2
North Sea⁶	Gross	3.0	—	2.0	5.0	12.0	2.0	3.0	17.0	15.0	2.0	5.0	22.0
	Net	2.2	—	1.1	3.3	5.5	0.2	0.9	6.6	7.7	0.2	2.0	9.9
Southeast Asia													
Indonesia	Gross	—	1.0	2.0	3.0	6.0	—	—	6.0	6.0	1.0	2.0	9.0
	Net	—	0.4	0.5	0.9	2.6	—	—	2.6	2.6	0.4	0.5	3.5
Malaysia/ Vietnam	Gross	2.0	4.0	1.0	7.0	12.0	9.0	—	21.0	14.0	13.0	1.0	28.0
	Net	0.9	1.6	0.4	2.9	4.9	3.6	—	8.5	5.8	5.2	0.4	11.4
Algeria	Gross	1.0	—	—	1.0	11.0	—	—	11.0	12.0	—	—	12.0
	Net	0.4	—	—	0.4	0.6	—	—	0.6	1.0	—	—	1.0
Sudan	Gross	2.0	—	—	2.0	1.0	—	—	1.0	3.0	—	—	3.0
	Net	0.5	—	—	0.5	0.3	—	—	0.3	0.8	—	—	0.8
Trinidad	Gross	1.0	2.0	—	3.0	—	—	—	—	1.0	2.0	—	3.0
	Net	0.4	0.6	—	1.0	—	—	—	—	0.4	0.6	—	1.0
Other⁸	Gross	—	—	1.0	1.0	—	—	—	—	—	—	1.0	1.0
	Net	—	—	0.3	0.3	—	—	—	—	—	—	0.3	0.3
Total	Gross	23.0	160.0	27.0	210.0	232.0	236.0	24.0	492.0	255.0	396.0	51.0	702.0
	Net	13.8	107.7	17.9	139.4	114.9	136.5	19.1	270.5	128.7	244.2	37.0	409.9

Year Ended December 31, 2002 ⁹		Exploration				Development				Total			
		Oil ³	Gas ³	Dry ⁴	Total	Oil ³	Gas ³	Dry ⁴	Total	Oil ³	Gas ³	Dry ⁴	Total
North America													
Canada	Gross	17.0	95.0	35.0	147.0	129.0	127.0	15.0	271.0	146.0	222.0	50.0	418.0
	Net	14.8	66.4	26.4	107.6	88.9	70.9	10.9	170.7	103.7	137.3	37.3	278.3
United States	Gross	—	1.0	5.0	6.0	—	—	—	—	—	1.0	5.0	6.0
	Net	—	1.0	3.4	4.4	—	—	—	—	—	1.0	3.4	4.4
North Sea⁶	Gross	1.0	—	3.0	4.0	14.0	2.0	3.0	19.0	15.0	2.0	6.0	23.0
	Net	0.9	—	1.6	2.5	5.4	0.1	2.2	7.7	6.3	0.1	3.8	10.2
Southeast Asia													
Indonesia	Gross	—	3.0	2.0	5.0	5.0	—	1.0	6.0	5.0	3.0	3.0	11.0
	Net	—	0.9	1.0	1.9	2.5	—	0.4	2.9	2.5	0.9	1.4	4.8
Malaysia/	Gross	1.0	1.0	2.0	4.0	2.0	—	—	2.0	3.0	1.0	2.0	6.0
Vietnam	Net	0.4	0.4	0.8	1.6	0.8	—	—	0.8	1.2	0.4	0.8	2.4
Algeria	Gross	—	—	—	—	8.0	—	—	8.0	8.0	—	—	8.0
	Net	—	—	—	—	0.8	—	—	0.8	0.8	—	—	0.8
Sudan	Gross	16.0	—	7.0	23.0	6.0	—	1.0	7.0	22.0	—	8.0	30.0
	Net	4.0	—	1.8	5.8	1.5	—	0.3	1.8	5.5	—	2.1	7.6
Trinidad	Gross	2.0	1.0	2.0	5.0	—	—	—	—	2.0	1.0	2.0	5.0
	Net	0.5	0.3	0.9	1.7	—	—	—	—	0.5	0.3	0.9	1.7
Total	Gross	37.0	101.0	56.0	194.0	164.0	129.0	20.0	313.0	201.0	230.0	76.0	507.0
	Net	20.6	69.0	35.9	125.5	99.9	71.0	13.8	184.7	120.5	140.0	49.7	310.2

Notes:

- 1 The number of wells refers to gross wellbores, which is the total number of wells Talisman has drilled or participated in drilling, with a working interest. Service wells, including water injection, gas injection, water source and water disposal wells are not included. Multilaterals from the same wellbore are counted as a single wellbore. Stratigraphic test wells are included.
- 2 "Net" wellbores are the aggregate of the percentage working interest of the Company in each of the gross wellbores. Data is rounded to the nearest decimal place and summed.
- 3 A productive oil or gas well is an exploratory or development well that is not a dry well.
- 4 A dry well (hole) is an exploratory or development well found to be incapable of producing either oil or gas in sufficient quantities to justify completion as an oil or gas well.
- 5 "United States" excludes Alaska.
- 6 "North Sea" for 2004 and 2003, includes the United Kingdom, Norway and the Netherlands Continental Shelf and for 2002, includes the United Kingdom and the Netherlands Continental Shelf.
- 7 "Other" for the year ended December 31, 2004 includes Alaska, Colombia and Peru.
- 8 "Other" for the year ended December 31, 2003 includes Scotian Slope.
- 9 As discussed under the heading "Note Regarding Reserves Data and Other Oil and Gas Information", in 2003 Talisman began stating oil and gas information in accordance with U.S. disclosure requirements. These requirements have been applied to prior year drilling statistics, resulting in some changes to figures previously reported for the year ended December 31, 2002.

The following table shows the number of wells in the process of drilling or in active completion stages as of December 31, 2004.

	Wells in the process of drilling, suspended or active completion ¹	
	Exploration	Development
North America		
Gross	110.0	244.0
Net	55.6	106.4
North Sea		
Gross	1.0	4.0
Net	0.4	1.0
Southeast Asia		
Gross	2.0	—
Net	0.7	—
Algeria		
Gross	—	1.0
Net	—	0.0
Trinidad		
Gross	1.0	—
Net	0.3	—
Other²		
Gross	1.0	—
Net	0.3	—
Total		
Gross	115.0	249.0
Net	57.3	107.5

Notes:

1 The number of wells refers to gross wellbores, which is the total number of wells Talisman has drilled or participated in drilling, with a working interest. Service wells, including water injection, gas injection, water source and water disposal wells, are not included. Multilaterals from the same wellbore are counted as a single wellbore. Stratigraphic test wells are included.

2 "Other" includes Colombia.

RESERVES ESTIMATES

Talisman's oil and gas reserves are evaluated internally. The exemption under NI 51-101 described under "Note Regarding Reserves Data and Other Oil and Gas Information", in addition to permitting Talisman to provide disclosure in accordance with U.S. standards, exempts Talisman from the requirement under NI 51-101 to have its reserves evaluated or audited by independent reserves evaluators. NI 51-101 and its companion policy specifically contemplate the granting of such an exemption to issuers such as Talisman who produce over 100,000 boe/d and are able to demonstrate the internal capability to generate reliable reserves data. The following discussion is provided pursuant to the requirements of the exemption.

Talisman understands that the purpose of the requirement under NI 51-101 for the involvement of independent qualified evaluators or auditors is to ensure that disclosure of reserves information reflects the conclusions of qualified professionals applying consistent standards and that such conclusions are not affected by adverse influences. Talisman believes that using independent evaluators or auditors would not materially enhance the reliability of its reserves estimates, in light of the expertise of its internal reserves evaluation personnel and the controls applied during its reserves evaluation process. Talisman believes that its internal resources are at least as extensive as, if not greater than, those which would be assigned by any independent evaluators or auditors engaged by the Company, and that its internal staff's knowledge of and experience with the Company's reserves enable the Company to prepare an evaluation at least equivalent to that of any independent evaluator or auditor.

As at December 2004, the Company's internal reserves evaluation staff included 104 persons with full-time or part-time responsibility for reserves evaluation with an average of approximately 17 full-time or part-time years of relevant experience in evaluating reserves, of whom 47 were "qualified reserves evaluators" for purposes of NI 51-101. The Company's internal reserves evaluation management personnel included approximately 26 persons with full-time or part-time responsibility for reserves evaluation management with an average of approximately 23 full-time or part-time years of relevant experience in evaluating and managing the evaluation of reserves, 14 of whom were qualified reserves evaluators for purposes of NI 51-101. The Company has appointed an Internal Qualified Reserves Evaluator ("IQRE") who reports directly to the Chief Executive Officer and who is responsible for the preparation and validation of the Company's reserves evaluation and the submission to the Company's Board of Directors of a report thereon as required by the NI 51-101 exemption. The Company's IQRE is Michael Adams, a graduate of Imperial College, London University with a B.Sc. in Physical Chemistry and an M.Sc. in Petroleum Engineering. Mr. Adams has over 30 years of petroleum engineering experience internationally and in North America. He is a professional engineer registered in Alberta and a chartered engineer registered in the UK.

Talisman has adopted a corporate policy which prescribes procedures and standards to be followed in preparing its reserves data. The following summarizes Talisman's current process for preparing and approving its publicly disclosed reserves data.

- All of Talisman's proved reserves are evaluated annually. Talisman employs qualified, competent, experienced engineers to ensure consistently high levels of professionalism in the estimation of its reserves data. Technical, cost and economic assumptions underpinning reserves estimates are documented to provide a clear audit trail.
- Talisman conducts formal reviews during the proved reserves estimation process to ensure: the reasonableness, completeness and accuracy of input data; the appropriateness of the technical sub-surface methodology; the full understanding of reserve movements; and the correct use of reserves classifications. Peer review of input data and results is also common practice. All reserve estimates are reviewed and approved by the Executive Vice-Presidents of the operating areas and then submitted to the Company's executive operating committee, comprised of the Chief Executive Officer and all the Executive Vice-Presidents of the Company, for review and approval. In addition, the IQRE conducts a separate review to ensure the effectiveness of the disclosure controls and that the reserves estimates are free from material misstatement. The reserves data and the report of the IQRE are then reviewed by the Reserves Committee of the Board of Directors. The Reserves Committee and the IQRE have independent access to each other. Once approved by the Reserves Committee, the reserves data is submitted to the Board of Directors for final approval.
- Notwithstanding that Talisman is exempt from the independent evaluator requirements of NI 51-101, Talisman obtains annual audits by independent external engineering consultants of its reserve estimates for some of its properties on a rotating basis. Over the past three years, the Company's estimates for approximately 90% of its current proved reserves (on a boe basis) have been independently audited. The audits have not revealed any material discrepancies. Talisman's Reserves Data Policy and Procedures Manual (the "Reserves Manual") was originally reviewed by external engineering consultants in 2003. The Reserves Manual was updated and re-issued in 2004 to reflect the latest industry practices and guidelines. Talisman also adopted new reserves software for its North American reserves estimating process in 2004. Talisman conducts periodic internal audits of the procedures, records and controls relating to the preparation of reserves data.

Accordingly, Talisman considers the reliability of its internally generated reserves data to be not materially less than would be afforded by the independent evaluator requirements of NI 51-101.

The following table sets forth Talisman's estimates of its proved developed, proved undeveloped, total proved, probable and total proved plus probable reserves as at December 31, 2004.

	Proved Developed ²		Proved Undeveloped ³		Total Proved ¹		Total Probable ⁴		Total Proved and Probable	
	Gross ⁵	Net ⁶	Gross ⁵	Net ⁶	Gross ⁵	Net ⁶	Gross ⁵	Net ⁶	Gross ⁵	Net ⁶
Oil and Natural Gas Liquids										
(millions of barrels)										
North America										
Canada	171.0	142.6	12.0	9.6	183.0	152.2	75.6	61.3	258.6	213.5
United States	—	—	—	—	—	—	—	—	—	—
North Sea⁷	254.0	252.3	43.0	42.8	297.0	295.1	201.6	200.7	498.6	495.8
Southeast Asia										
Indonesia ⁸	14.9	7.3	10.2	3.3	25.1	10.6	13.8	5.1	38.9	15.7
Malaysia/Vietnam ⁸	25.0	11.9	39.0	23.7	64.0	35.6	45.2	16.6	109.2	52.2
Algeria⁸	27.9	16.5	9.3	5.4	37.2	21.9	43.4	24.8	80.6	46.7
Trinidad⁸	11.0	10.5	0.4	0.4	11.4	10.9	3.7	3.3	15.1	14.2
Total	503.8	441.1	113.9	85.2	617.7	526.3	383.3	311.8	1,001.0	838.1
Natural Gas										
(billions of cubic feet)										
North America										
Canada	2,056.2	1,657.4	426.1	343.6	2,482.3	2,001.0	1,225.0	961.4	3,707.3	2,962.4
United States	151.1	130.8	2.0	1.7	153.1	132.5	98.0	85.7	251.1	218.2
North Sea⁷	160.6	150.0	27.3	27.3	187.9	177.3	77.3	75.8	265.2	253.1
Southeast Asia										
Indonesia ⁸	767.1	554.4	930.5	632.8	1,697.6	1,187.2	859.2	574.9	2,556.8	1,762.1
Malaysia/Vietnam ⁸	91.1	69.6	394.7	298.0	485.8	367.6	286.5	158.9	772.3	526.5
Algeria⁸	—	—	—	—	—	—	—	—	—	—
Trinidad⁸	—	—	216.5	216.5	216.5	216.5	77.6	77.6	294.1	294.1
Total	3,226.1	2,562.2	1,997.1	1,519.9	5,223.2	4,082.1	2,623.6	1,934.3	7,846.8	6,016.4
Synthetic Oil⁹										
(millions of barrels)										
Canada	41.2	35.1	—	—	41.2	35.2	23.9	20.4	65.1	55.6

Notes:

- "Proved" reserves have been estimated in accordance with the SEC definition set out in Rule 4-10(a) of Regulation S-X under the Securities Exchange Act of 1934 as follows: Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids, which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.
- "Proved Developed" reserves are those reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery are included as proved developed reserves only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.
- "Proved Undeveloped" reserves are those reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells for which a relatively major expenditure is required for recompletion. Inclusion of reserves on undrilled acreage is limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units are included only if it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Estimates for proved undeveloped reserves are not attributed to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.
- "Probable" reserves are less certain than proved reserves and have been estimated in accordance with the definition set out by the Society of Petroleum Engineers and the World Petroleum Congress ("SPE/WPC"). That is, probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. Probable reserves are estimated under the same existing economic and operating conditions used for proved reserves.
- "Gross" proved reserves refer to the sum of (i) working interest reserves before deduction of royalty burdens payable, (ii) royalty interest reserves and (iii) net profits interests. Royalty interest reserves and net profits interest volumes for Canada were approximately 3.3 mmboe as at December 31, 2004. The inclusion of royalty interest and net profit interest volumes in gross reserves does not conform to COGEH standards applicable under NI 51-101.
- "Net" reserves are the remaining reserves of Talisman, after deduction of estimated royalty burdens and including royalty interests and net profit interests in the amount set out in Note 5 above. The inclusion of net profit interest volumes in net reserves is consistent with SEC requirements for net reserves disclosure, but does not conform to COGEH standards applicable under NI 51-101.
- "North Sea" includes the United Kingdom, Norway and the Netherlands Continental Shelf.
- Interests of various governments, other than working interests or income taxes, are accounted for as royalties. Royalties are reflected in "net" reserves using effective rates over the life of the contract.
- Talisman has not independently estimated synthetic oil reserves volumes. Reserves volumes reported herein are consistent with reserves estimates published by the general partner of the limited partnership through which Talisman has an indirect 1.25% interest in the Syncrude project.

A report on reserves data by Talisman's IQRE and a report of management and directors on oil and gas disclosure are provided in Schedules A and B, respectively, to this Annual Information Form. The Company does not file estimates of its total oil and gas reserves with any U.S. agency or federal authority other than the SEC.

OTHER OIL AND GAS INFORMATION

The tables in this section set forth oil and gas information prepared by Talisman in accordance with U.S. disclosure standards, including FAS 69.

CONTINUITY OF NET PROVED RESERVES¹

	North America ²	North Sea	Southeast Asia	Algeria	Sudan	Trinidad	Total
Crude Oil and Liquids (mmbbls)							
Total Proved							
Proved reserves at December 31, 2001	175.8	260.2	39.6	16.9	116.3	—	608.8
Discoveries, additions and extensions	10.6	13.5	5.8	1.3	19.0	18.9	69.1
Purchase of reserves	1.1	7.5	—	—	—	—	8.6
Sale of reserves	(3.7)	(2.8)	—	—	—	—	(6.5)
Net revisions and transfers	(2.5)	13.9	(4.2)	(4.3)	(27.7)	—	(24.8)
2002 Production	(17.2)	(44.7)	(5.1)	—	(13.3)	—	(80.3)
Proved reserves at December 31, 2002	164.1	247.6	36.1	13.9	94.3	18.9	574.9
Discoveries, additions and extensions	13.1	8.3	17.0	2.3	—	—	40.7
Purchase of reserves	1.1	21.1	—	—	—	—	22.2
Sale of reserves	(4.6)	—	—	—	(91.7)	—	(96.3)
Net revisions and transfers	1.1	19.4	4.8	0.5	—	(0.8)	25.0
2003 Production	(16.4)	(41.4)	(5.4)	(0.1)	(2.6)	—	(65.9)
Proved reserves at December 31, 2003	158.4	255.0	52.5	16.6	—	18.1	500.6
Discoveries, additions and extensions	14.0	29.7	2.0	8.1	—	—	53.8
Purchase of reserves	0.2	34.0	0.9	—	—	—	35.1
Sale of reserves	(2.1)	(3.3)	—	—	—	—	(5.4)
Net revisions and transfers	(2.5)	24.0	(1.3)	0.3	—	(7.2)	13.3
2004 Production	(15.8)	(44.3)	(7.9)	(3.1)	—	—	(71.1)
Proved reserves at December 31, 2004	152.2	295.1	46.2	21.9	—	10.9	526.3
Proved Developed							
December 31, 2001	168.6	203.8	13.3	—	89.6	—	475.3
December 31, 2002	157.2	210.8	11.9	2.4	84.1	—	466.4
December 31, 2003	155.4	211.8	18.6	14.6	—	—	400.4
December 31, 2004	142.6	252.3	19.2	16.5	—	10.5	441.1
Natural Gas (bcf)							
Total Proved							
Proved reserves at December 31, 2001	2,052.6	267.3	1,112.1	—	—	—	3,432.0
Discoveries, additions and extensions	283.1	14.0	11.7	—	—	220.0	528.8
Purchase of reserves	31.5	0.4	—	—	—	—	31.9
Sale of reserves	(26.7)	—	—	—	—	—	(26.7)
Net revisions and transfers	(110.8)	(4.3)	(122.6)	—	—	—	(237.7)
2002 Production	(243.6)	(39.5)	(32.3)	—	—	—	(315.4)
Proved reserves at December 31, 2002	1,986.1	237.9	968.9	—	—	220.0	3,412.9
Discoveries, additions and extensions	276.3	1.0	64.0	—	—	—	341.3
Purchase of reserves	92.2	14.4	—	—	—	—	106.6
Sale of reserves	(11.4)	—	—	—	—	—	(11.4)
Net revisions and transfers	(14.9)	19.8	(6.1)	—	—	(9.0)	(10.2)
2003 Production	(247.6)	(37.5)	(40.1)	—	—	—	(325.2)
Proved reserves at December 31, 2003	2,080.7	235.6	986.7	—	—	211.0	3,514.0
Discoveries, additions and extensions	370.6	8.0	521.9	—	—	—	900.5
Purchase of reserves	19.1	0.1	—	—	—	—	19.2
Sale of reserves	(57.1)	(0.5)	—	—	—	—	(57.6)
Net revisions and transfers	(19.2)	(26.4)	93.5	—	—	5.5	53.4
2004 Production	(260.6)	(39.5)	(47.3)	—	—	—	(347.4)
Proved reserves at December 31, 2004	2,133.5	177.3	1,554.8	—	—	216.5	4,082.1
Proved Developed							
December 31, 2001	1,804.7	213.8	252.0	—	—	—	2,270.5
December 31, 2002	1,746.9	210.0	471.6	—	—	—	2,428.5
December 31, 2003	1,890.4	200.7	593.9	—	—	—	2,685.0
December 31, 2004	1,788.2	150.0	624.0	—	—	—	2,562.2

Notes:

1 For definitions of reserves, see the notes found on page 26 of this Annual Information Form.

2 North American net proved reserves exclude synthetic crude oil reserves: 2002 – 36.7 mmbbls; 2003 – 35.8 mmbbls; 2004 – 35.2 mmbbls.

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS FROM PROVED RESERVES

Future net cash flows were calculated by applying the respective year end prices to the Company's estimated future production of proved reserves and deducting estimates of future development and asset retirement, production and transportation costs and income taxes. Future costs have been estimated based on existing economic and operating conditions. Future income taxes have been estimated based on statutory tax rates enacted at year end. The present values of the estimated future cash flows were determined by applying a 10% discount rate prescribed by the Financial Accounting Standards Board.

In order to increase the comparability between companies, the standardized measure of discounted future net cash flows necessarily employs uniform assumptions that do not necessarily reflect management's best estimate of future events and anticipated outcomes. Accordingly, the Company does not believe that the standardized measure of discounted future net cash flows will be representative of actual future net cash flows and should not be considered to represent the fair market value of the oil and gas properties. Actual future net cash flows will differ significantly from those estimated due to, but not limited to, the following:

- production rates will differ from those estimated both in terms of timing and amount. For example, future production may include significant additional volumes from unproved reserves;
- future prices and economic conditions will differ from those at year end. For example, changes in prices increased the discounted future net cash flows by \$3.5 billion in 2004;
- future production and development costs will be determined by future events and will differ from those at year end; and
- estimated income taxes will differ in terms of amounts and timing dependent on the above factors, changes in enacted rates and the impact of future expenditures on unproved properties.

The standardized measure of discounted net cash flows was prepared using the following prices:

	2004	2003	2002
Crude oil and liquids (\$/bbl)			
North America	34.27	33.32	42.07
North Sea	46.65	37.89	46.84
Southeast Asia	44.01	41.71	49.22
Sudan	—	—	44.09
Algeria	48.71	38.91	48.37
Trinidad	42.67	39.12	45.72
	42.66	37.04	45.13
Natural Gas (\$/mcf)			
North America	7.32	6.32	6.06
North Sea	6.25	5.55	5.59
Southeast Asia	3.54	3.74	4.94
Trinidad	1.81	1.03	1.26
	5.47	5.17	5.43

Discounted Future Net Cash Flows from Proved Reserves

As at December 31 (millions of Canadian dollars)		North America	North Sea	Southeast Asia	Sudan	Algeria	Trinidad	Total
2004	Future cash inflows ¹	20,825	14,916	7,525	—	1,071	854	45,191
	Future costs							
	Transportation	(501)	(494)	(655)	—	(61)	—	(1,711)
	Production	(4,847)	(7,028)	(1,235)	—	(148)	(128)	(13,386)
	Development and site restoration	(2,138)	(3,214)	(770)	—	(29)	(114)	(6,265)
	Future net inflows before income taxes	13,339	4,180	4,865	—	833	612	23,829
	Future income and production revenue taxes	(3,650)	(1,724)	(1,959)	—	(245)	(262)	(7,840)
	Future net cash flows	9,689	2,456	2,906	—	588	350	15,989
	10% discount factor	(3,845)	(302)	(1,402)	—	(165)	(115)	(5,829)
	Discounted future net cash flows	5,844	2,154	1,504	—	423	235	10,160
2003	Future cash inflows ¹	18,444	11,032	5,930	—	645	928	36,979
	Future costs							
	Production	(4,958)	(5,686)	(1,107)	—	(165)	(122)	(12,038)
	Development and site restoration	(1,490)	(1,989)	(697)	—	(14)	(248)	(4,438)
	Future net inflows before income taxes	11,996	3,357	4,126	—	466	558	20,503
	Future income and production revenue taxes	(3,664)	(1,393)	(1,601)	—	(107)	(299)	(7,064)
	Future net cash flows	8,332	1,964	2,525	—	359	259	13,439
	10% discount factor	(3,740)	(147)	(1,118)	—	(86)	(112)	(5,203)
	Discounted future net cash flows	4,592	1,817	1,407	—	273	147	8,236
2002	Future cash inflows ¹	19,639	13,160	6,627	4,090	675	1,143	45,334
	Future costs							
	Production	(4,325)	(5,577)	(1,040)	(999)	(230)	(157)	(12,328)
	Development and site restoration	(995)	(1,873)	(709)	(313)	(64)	(368)	(4,322)
	Future net inflows before income taxes	14,319	5,710	4,878	2,778	381	618	28,684
	Future income and production revenue taxes	(5,654)	(2,597)	(2,011)	(744)	(31)	(370)	(11,407)
	Future net cash flows	8,665	3,113	2,867	2,034	350	248	17,277
	10% discount factor	(3,913)	(554)	(1,387)	(655)	(97)	(161)	(6,767)
	Discounted future net cash flows	4,752	2,559	1,480	1,379	253	87	10,510

Note:

1 Future cash inflows are revenues net of royalties.

Principal Sources of Changes in Discounted Cash Flows

Years ended December 31 (millions of Canadian dollars)	2004	2003	2002
Sales of oil and gas produced, net of production costs	(3,866)	(3,308)	(3,307)
Net change in prices	3,506	(3,200)	9,709
Net change in transportation costs	(954)	—	—
Net change in production costs	410	(357)	(1,990)
Net change in future development and site restoration costs	(638)	(87)	(637)
Development costs incurred during the year	623	672	764
Extensions, discoveries and improved recovery	2,386	1,229	1,863
Revisions of previous reserve estimates	(615)	92	37
Net purchases and sales of reserves in place	150	(1,225)	17
Accretion of discount	1,263	1,555	972
Net change in taxes	(598)	2,399	(3,342)
Other	257	(44)	(97)
Net change	1,924	(2,274)	3,989
Balance, beginning of year	8,236	10,510	6,521
Balance, end of year	10,160	8,236	10,510

RESULTS OF OPERATIONS FROM OIL AND GAS PRODUCING ACTIVITIES

Years ended December 31 (millions of Canadian dollars)	North America	North Sea	Southeast Asia	Sudan	Algeria	Trinidad	Other	Total
2004	Net oil and gas revenue derived from proved reserves ¹	2,304	2,038	729	—	156	—	— 5,227
	Less:							
	Production costs	392	662	98	—	17	—	— 1,169
	Transportation	75	66	42	—	9	—	— 192
	Exploration and dry hole expense	251	138	45	—	4	33	78 549
	Depreciation, depletion and amortization	729	689	174	—	30	—	— 1,622
	Tax expense (recovery)	219	288	152	—	36	(11)	(27) 657
	Results of operations	638	195	218	—	60	(22)	(51) 1,038
2003	Net oil and gas revenue derived from proved reserves ¹	2,148	1,762	436	112	43	—	— 4,501
	Less:							
	Production costs	367	528	87	18	12	—	— 1,012
	Transportation	78	63	36	—	4	—	— 181
	Exploration and dry hole expense	222	90	26	5	1	34	86 464
	Depreciation, depletion and amortization	647	635	95	—	17	—	— 1,394
	Tax expense (recovery)	328	237	77	30	3	(12)	(31) 632
	Results of operations	506	209	115	59	6	(22)	(55) 818
2002	Net oil and gas revenue derived from proved reserves ¹	1,712	1,926	393	500	—	—	— 4,531
	Less:							
	Production costs	339	522	85	84	—	—	— 1,030
	Transportation	78	78	38	—	—	—	— 194
	Exploration and dry hole expense	194	29	23	19	5	46	43 359
	Depreciation, depletion and amortization	583	701	87	92	—	—	— 1,463
	Tax expense (recovery)	205	430	75	85	(2)	(22)	(18) 753
	Results of operations	313	166	85	220	(3)	(24)	(25) 732

Note:

¹ Net oil and gas revenue derived from proved reserves is net of applicable royalties.

CAPITALIZED COSTS RELATED TO OIL AND GAS ACTIVITIES

As at December 31 (millions of Canadian dollars)	North America	North Sea	Southeast Asia	Sudan	Algeria	Trinidad	Other	Total
2004	Proved properties	8,680	7,009	1,487	—	197	229	5 17,607
	Unproved properties	192	54	16	—	23	16	34 335
	Incomplete wells and facilities	49	3	46	—	—	35	12 145
		8,921	7,066	1,549	—	220	280	51 18,087
	Less: accumulated depreciation, depletion and amortization	3,195	4,006	501	—	42	—	— 7,744
	Net capitalized costs	5,726	3,060	1,048	—	178	280	51 10,343
2003	Proved properties	7,751	6,339	1,466	—	151	120	— 15,827
	Unproved properties	227	88	95	—	67	16	3 496
	Incomplete wells and facilities	31	1	22	—	—	1	5 60
		8,009	6,428	1,583	—	218	137	8 16,383
	Less: accumulated depreciation, depletion and amortization	2,694	3,451	498	—	16	—	— 6,659
	Net capitalized costs	5,315	2,977	1,085	—	202	137	8 9,724
2002	Proved properties	6,939	5,592	1,422	986	217	45	— 15,201
	Unproved properties	214	14	156	36	29	9	— 458
	Incomplete wells and facilities	33	66	22	17	—	—	— 138
		7,186	5,672	1,600	1,039	246	54	— 15,797
	Less: accumulated depreciation, depletion and amortization	2,339	2,774	509	271	—	—	— 5,893
	Net capitalized costs	4,847	2,898	1,091	768	246	54	— 9,904

COSTS INCURRED IN OIL AND GAS ACTIVITIES

Years ended December 31 (millions of Canadian dollars)			North America	North Sea	Southeast Asia	Sudan	Algeria	Trinidad	Other	Total
2004	Property acquisition costs	Proved	77	233	—	—	—	—	—	310
		Unproved	165	71	—	—	—	—	39	275
	Exploration costs		459	150	54	—	—	34	86	783
	Development costs		785	357	201	—	8	158	—	1,509
	Asset retirement cost		36	51	3	—	—	7	—	97
	Total costs incurred		1,522	862	258	—	8	199	125	2,974
2003	Property acquisition costs	Proved	369	189	—	—	—	—	—	558
		Unproved	184	2	—	—	—	—	3	189
	Exploration costs		336	99	70	7	4	58	90	664
	Development costs		600	397	246	(5)	30	72	—	1,340
	Asset retirement costs		125	285	5	—	—	—	—	415
	Total costs incurred		1,614	972	321	2	34	130	93	3,166
2002	Property acquisition costs	Proved	174	88	—	—	—	—	—	262
		Unproved	50	13	—	—	—	9	—	72
	Exploration costs		271	134	36	27	3	54	43	568
	Development costs		457	297	233	71	103	14	—	1,175
	Total costs incurred		952	532	269	98	106	77	43	2,077

PRODUCT NETBACKS (NET)

The following table provides information on product netbacks net of royalties, expressed in U.S. Dollars.

Product Netbacks (net of royalties)¹

(Net of Royalties) – US\$		2004	2003	2002
North America	Oil and Liquids (\$/bbl)			
	Sales Price	32.44	25.64	20.96
	Hedging (gain)	5.81	2.21	0.04
	Transportation	0.48	0.44	0.31
	Operating costs	6.55	5.67	4.48
		19.60	17.32	16.13
	Natural Gas (\$/mcf)			
	Sales Price	5.26	4.74	2.70
	Hedging (gain)	0.10	0.10	(0.22)
	Transportation	0.19	0.19	0.18
	Operating costs	0.76	0.68	0.56
		4.21	3.77	2.18
North Sea	Oil and Liquids (\$/bbl)			
	Sales Price	37.23	28.35	24.68
	Hedging (gain)	5.77	1.43	0.08
	Transportation	0.89	0.83	0.82
	Operating costs	10.28	8.19	6.56
		20.29	17.90	17.22
	Natural Gas (\$/mcf)			
	Sales Price	4.29	3.41	2.68
	Hedging (gain)	—	—	—
	Transportation	0.29	0.28	0.33
	Operating costs	0.47	0.28	0.31
		3.53	2.85	2.04
Southeast Asia	Oil and Liquids (\$/bbl)			
	Sales Price	39.49	29.66	25.80
	Hedging (gain)	—	2.78	0.06
	Transportation	0.30	0.48	0.84
	Operating costs	7.32	8.48	7.92
		31.87	17.92	16.98
	Natural Gas (\$/mcf)			
	Sales Price	3.65	4.12	3.63
	Hedging (gain)	—	—	—
	Transportation	0.42	0.59	0.62
	Operating costs	0.27	0.38	0.40
		2.96	3.15	2.61
Algeria	Oil and Liquids (\$/bbl)			
	Sales Price	39.48	27.84	—
	Hedging (gain)	—	3.13	—
	Transportation	2.20	2.55	—
	Operating costs	4.41	7.06	—
		32.87	15.10	—
Sudan	Oil and Liquids (\$/bbl)			
	Sales Price	—	31.33	24.06
	Hedging (gain)	—	—	0.08
	Operating costs	—	4.96	4.02
		—	26.37	19.96
Total Company	Oil and Liquids (\$/bbl)			
	Sales Price	36.57	27.90	23.85
	Hedging (gain)	4.90	1.71	0.07
	Transportation	0.79	0.70	0.58
	Operating costs	8.87	7.46	5.78
		22.01	18.03	17.42
	Natural Gas (\$/mcf)			
	Sales Price	4.84	4.50	2.80
	Hedging (gain)	0.07	0.07	(0.17)
	Transportation	0.25	0.25	0.25
	Operating costs	0.63	0.59	0.51
		3.89	3.59	2.21

Note:

1 Netbacks do not include synthetic oil or pipeline operations.

SUPPLEMENTAL OIL AND GAS INFORMATION

The following information is provided in addition to the information required under U.S. disclosure standards.

CONTINUITY OF GROSS PROVED RESERVES¹

	North America ²	North Sea	Southeast Asia	Algeria	Sudan	Trinidad	Total
Crude Oil and Liquids (mmbbls)							
Total Proved							
Proved reserves at December 31, 2001	212.3	274.5	59.3	35.2	156.3	—	737.6
Discoveries, additions and extensions	13.0	13.5	9.6	2.6	32.3	19.2	90.2
Purchase of reserves	1.4	7.5	—	—	—	—	8.9
Sale of reserves	(4.6)	(2.8)	—	—	—	—	(7.4)
Net revisions and transfers	(1.2)	3.5	—	(10.4)	(5.8)	—	(13.9)
2002 Production	(21.8)	(46.5)	(8.3)	—	(21.9)	—	(98.5)
Proved reserves at December 31, 2002	199.1	249.7	60.6	27.4	160.9	19.2	716.9
Discoveries, additions and extensions	16.0	8.2	25.2	3.9	—	—	53.3
Purchase of reserves	1.3	21.1	—	—	—	—	22.4
Sale of reserves	(5.3)	—	—	—	(156.1)	—	(161.4)
Net revisions and transfers	(0.1)	18.7	7.6	0.1	—	—	26.3
2003 Production	(20.8)	(41.3)	(9.0)	(2.4)	(4.8)	—	(78.3)
Proved reserves at December 31, 2003	190.2	256.4	84.4	29.0	—	19.2	579.2
Discoveries, additions and extensions	17.3	29.8	13.0	13.9	—	—	74.0
Purchase of reserves	0.2	34.1	1.3	—	—	—	35.6
Sale of reserves	(2.6)	(3.3)	—	—	—	—	(5.9)
Net revisions and transfers	(2.2)	24.6	3.4	(0.7)	—	(7.8)	17.3
2004 Production	(19.9)	(44.6)	(13.0)	(5.0)	—	—	(82.5)
Proved reserves at December 31, 2004	183.0	297.0	89.1	37.2	—	11.4	617.7
Proved Developed							
December 31, 2001	203.0	215.7	20.4	—	120.4	—	559.5
December 31, 2002	190.0	212.6	19.7	4.8	143.4	—	570.5
December 31, 2003	186.4	213.0	29.5	25.5	—	—	454.4
December 31, 2004	171.0	254.0	39.9	27.9	—	11.0	503.8
Natural Gas (bcf)							
Total Proved							
Proved reserves at December 31, 2001	2,596.8	302.2	1,597.5	—	—	—	4,496.5
Discoveries, additions and extensions	374.2	15.4	19.7	—	—	223.5	632.8
Purchase of reserves	37.7	0.4	—	—	—	—	38.1
Sale of reserves	(34.9)	—	—	—	—	—	(34.9)
Net revisions and transfers	(80.3)	(11.3)	(54.4)	—	—	—	(146.0)
2002 Production	(300.1)	(44.6)	(34.5)	—	—	—	(379.2)
Proved reserves at December 31, 2002	2,593.4	262.1	1,528.3	—	—	223.5	4,607.3
Discoveries, additions and extensions	351.5	1.0	107.0	—	—	—	459.5
Purchase of reserves	107.1	14.4	—	—	—	—	121.5
Sale of reserves	(14.3)	—	—	—	—	—	(14.3)
Net revisions and transfers	(77.0)	17.5	(20.6)	—	—	—	(80.1)
2003 Production	(315.8)	(39.9)	(42.7)	—	—	—	(398.4)
Proved reserves at December 31, 2003	2,644.9	255.1	1,572.0	—	—	223.5	4,695.5
Discoveries, additions and extensions	478.5	8.0	765.3	—	—	—	1,251.8
Purchase of reserves	22.8	0.1	—	—	—	—	22.9
Sale of reserves	(72.7)	(0.5)	—	—	—	—	(73.2)
Net revisions and transfers	(113.2)	(33.2)	(58.7)	—	—	(7.0)	(212.1)
2004 Production	(324.9)	(41.6)	(95.2)	—	—	—	(461.7)
Proved reserves at December 31, 2004	2,635.4	187.9	2,183.4	—	—	216.5	5,223.2
Proved Developed							
December 31, 2001	2,281.8	247.4	358.5	—	—	—	2,887.7
December 31, 2002	2,278.7	232.8	723.8	—	—	—	3,235.3
December 31, 2003	2,404.0	220.1	920.9	—	—	—	3,545.0
December 31, 2004	2,207.3	160.6	858.2	—	—	—	3,226.1

Notes:

1 For definitions of reserves, see the notes found on page 26 of this Annual Information Form.

2 North American gross proved reserves exclude synthetic crude oil reserves: 2002 – 43.2 mmbbls; 2003 – 42.3 mmbbls; 2004 – 41.2 mmbbls.

PRODUCT NETBACKS (GROSS)

The following table provides information on product netbacks on a gross basis expressed in Canadian dollars on a quarterly basis for the periods indicated.

Product Netbacks (gross)¹

C\$ Gross		2004					2003					2002
		Total		Three months ended			Total		Three months ended			Total
		Year	Dec 31	Sep 30	Jun 30	Mar 31	Year	Dec 31	Sep 30	Jun 30	Mar 31	Year
North America	Oil and liquids (\$/bbl)											
	Sales price	42.11	44.05	45.47	41.39	37.56	35.78	32.39	33.94	33.43	43.17	32.81
	Hedging (gain)	5.95	8.64	7.28	4.81	3.07	2.45	2.07	2.05	1.26	4.38	0.06
	Royalties	8.59	8.76	9.51	8.52	7.57	7.37	6.86	6.81	6.50	9.27	6.85
	Transportation	0.49	0.46	0.53	0.48	0.51	0.48	0.51	0.51	0.51	0.43	0.38
	Operating costs	6.75	7.79	6.64	6.67	5.90	6.28	6.76	6.21	5.89	6.27	5.55
		20.33	18.40	21.51	20.91	20.51	19.20	16.19	18.36	19.27	22.82	19.97
	Natural gas (\$/mcf)											
	Sales price	6.83	6.99	6.63	7.08	6.61	6.58	5.31	6.14	6.63	8.25	4.20
	Hedging (gain)	0.10	0.04	0.14	0.16	0.06	0.11	(0.04)	0.03	0.12	0.32	(0.28)
North Sea	Royalties	1.31	1.20	1.29	1.44	1.32	1.37	1.08	1.18	1.54	1.69	0.75
	Transportation	0.20	0.21	0.20	0.20	0.19	0.21	0.20	0.22	0.22	0.22	0.24
	Operating costs	0.79	0.80	0.81	0.80	0.77	0.75	0.78	0.77	0.70	0.76	0.71
		4.43	4.74	4.19	4.48	4.27	4.14	3.29	3.94	4.05	5.26	2.78
	Oil and liquids (\$/bbl)											
	Sales price	48.29	50.26	54.57	47.27	41.55	39.72	38.81	38.66	35.29	46.14	38.76
	Hedging (gain)	7.36	10.02	10.31	5.74	3.55	2.01	2.07	1.98	0.14	3.74	0.12
	Royalties	0.43	0.52	0.49	0.60	0.13	(0.08)	0.60	(0.27)	(0.89)	0.09	1.60
	Transportation	1.14	1.09	1.28	1.11	1.11	1.16	0.99	1.07	1.31	1.31	1.24
	Operating costs	13.27	11.84	15.59	13.07	12.86	11.51	10.83	11.05	11.60	12.73	9.87
Southeast Asia		26.09	26.79	26.90	26.75	23.90	25.12	24.32	24.83	23.13	28.27	25.93
	Natural gas (\$/mcf)											
	Sales price	5.55	6.08	4.88	5.17	5.85	4.77	5.10	4.26	4.30	5.15	4.16
	Hedging (gain)	—	—	—	—	—	—	—	—	—	—	—
	Royalties	0.42	0.37	0.46	0.13	0.66	0.28	0.63	0.09	0.04	0.25	0.48
	Transportation	0.35	0.38	0.32	0.31	0.37	0.37	0.39	0.39	0.34	0.35	0.45
	Operating costs	0.55	0.72	0.69	0.58	0.28	0.37	0.33	0.50	0.18	0.45	0.43
		4.23	4.61	3.41	4.15	4.54	3.75	3.75	3.28	3.74	4.10	2.80
	Oil and liquids (\$/bbl)											
	Sales price	51.29	53.81	56.95	50.19	44.10	41.35	41.56	38.58	38.15	47.47	40.12
Algeria	Hedging (gain)	—	—	—	—	—	2.37	2.10	2.07	1.26	4.30	0.06
	Royalties	21.24	21.94	23.37	21.77	17.82	16.09	15.69	14.43	15.86	18.71	14.83
	Transportations	0.23	0.18	0.20	0.28	0.25	0.41	0.27	0.47	0.44	0.50	0.82
	Operating costs	5.57	5.60	6.60	5.30	4.78	7.22	6.76	6.98	7.12	8.26	7.77
		24.25	26.09	26.78	22.84	21.25	15.26	16.74	14.63	13.47	15.70	16.64
	Natural gas (\$/mcf)											
	Sales price	4.74	4.55	5.03	4.85	4.50	5.72	5.31	5.21	5.86	6.96	5.65
	Hedging (gain)	—	—	—	—	—	—	—	—	—	—	—
	Royalties	1.19	1.20	1.39	1.33	0.81	0.29	0.33	0.24	0.27	0.34	0.25
	Transportation	0.41	0.38	0.40	0.43	0.42	0.77	0.68	0.80	0.81	0.87	0.93
	Operating costs	0.27	0.25	0.25	0.28	0.29	0.50	0.41	0.53	0.49	0.64	0.59
		2.87	2.72	2.99	2.81	2.98	4.16	3.89	3.64	4.29	5.11	3.88
	Oil (\$/bbl)											
	Sales price	51.17	46.50	63.98	49.09	44.62	39.01	39.70	39.37	35.05	40.33	—
	Hedging (gain)	—	—	—	—	—	2.23	2.11	2.07	1.26	4.40	—
	Royalties	19.65	18.48	20.15	17.34	22.59	19.18	18.52	20.38	18.04	20.16	—
	Transportation	1.76	1.64	1.79	1.84	1.80	1.77	1.64	1.87	1.88	1.88	—
	Operating costs	3.51	3.77	3.86	4.75	1.71	5.07	2.66	10.37	2.19	4.35	—
		26.25	22.61	38.18	25.16	18.52	10.76	14.77	4.68	11.68	9.54	—

C\$ Gross	Sudan	2004					2003					2002
		Total		Three months ended			Total		Three months ended			Total
		Year	Dec 31	Sep 30	Jun 30	Mar 31	Year	Dec 31	Sep 30	Jun 30	Mar 31	Year
	Oil (\$/bbl)											
	Sales price	—	—	—	—	—	43.89	—	—	—	43.89	37.79
	Hedging (gain)	—	—	—	—	—	—	—	—	—	—	0.07
	Royalties	—	—	—	—	—	20.34	—	—	—	20.34	14.94
	Operating costs	—	—	—	—	—	3.73	—	—	—	3.73	3.82
		—	—	—	—	—	19.82	—	—	—	19.82	18.96
	Oil and liquids (\$/bbl)											
Total Company	Sales price	47.45	49.10	53.30	46.42	41.15	39.09	37.68	37.33	35.07	44.98	37.34
	Hedging (gain)	5.42	7.53	7.15	4.31	2.67	2.05	2.08	2.01	0.65	3.14	0.09
	Royalties	6.84	6.85	7.86	6.71	6.00	5.59	5.13	4.20	3.83	8.53	6.83
	Transportation	0.88	0.84	0.95	0.87	0.87	0.83	0.81	0.88	0.97	0.75	0.74
	Operating costs	9.89	9.42	11.08	9.88	9.26	8.96	8.85	9.19	9.10	8.74	7.39
		24.42	24.46	26.26	24.65	22.35	21.66	20.81	21.05	20.52	23.82	22.29
	Natural gas (\$/mcf)											
	Sales price	6.28	6.38	6.15	6.47	6.13	6.30	5.29	5.87	6.36	7.76	4.33
	Hedging (gain)	0.07	0.03	0.10	0.12	0.04	0.08	(0.03)	0.02	0.10	0.25	(0.22)
	Royalties	1.21	1.12	1.25	1.31	1.15	1.14	0.93	0.98	1.28	1.40	0.67
	Transportation	0.26	0.26	0.25	0.26	0.25	0.28	0.29	0.30	0.28	0.29	0.32
	Operating costs	0.66	0.67	0.68	0.68	0.63	0.69	0.68	0.72	0.64	0.71	0.67
		4.08	4.30	3.87	4.10	4.06	4.11	3.42	3.85	4.06	5.11	2.89

Note:

1 Netbacks do not include synthetic oil or pipeline operations.

ADDITIONAL INFORMATION

Future commitments to buy, sell, exchange, process and transport oil or gas of the Company are described under note 12 entitled "Contingencies and Commitments" in the audited consolidated financial statements of the Company for the year ended December 31, 2004, which information is incorporated herein by reference.

COMPETITIVE CONDITIONS

The oil and gas industry, both within Canada and internationally, is highly competitive in all aspects of the business, including the acquisition of properties, the exploration for and development of new sources of supply and the marketing of current production. With respect to the exploration, development and marketing of oil and natural gas, the Company's competitors include major integrated oil and gas companies, numerous other independent oil and gas companies, individual producers and operators and national oil companies. A number of the Company's competitors have financial and other resources substantially in excess of those available to the Company. In addition, oil and gas producers in general compete indirectly against others engaged in supplying alternative forms of energy, fuel and related products to consumers.

SOCIAL RESPONSIBILITY AND ENVIRONMENTAL PROTECTION

Social Policies

Talisman has formal policies and procedures that support the Company's commitment to corporate responsibility. Talisman's Policy on Business Conduct and Ethics (the "Ethics Policy"), a statement of the Company's ethical principles, is the foundation of the Company's corporate responsibility framework. Every employee of Talisman is required to read the Ethics Policy and understand how it relates to his or her business dealings as a condition of employment. In addition, each employee is required to sign at least annually a declaration confirming his or her compliance with the Ethics Policy or disclosing any deviations therefrom, which declarations are reviewed by the Chief Executive Officer and reported to the Board of Directors. In 2004, Talisman adopted a security policy (the "Security Policy"), which is in the process of being implemented. Both the Ethics Policy and the Security Policy incorporate the Voluntary Principles on Security and Human Rights.

Health, Safety and Environmental Protection

Talisman's corporate health, safety and environment ("HSE") policy commits to three fundamental principles: providing safe and healthy operations, continuous improvement of the Company's environmental performance and respecting the interests of neighbours and other stakeholders. Talisman maintains an integrated HSE management framework and processes to achieve its HSE objectives in a structured way. Internal guidance documents

(standards and plans), programs, activities and service arrangements support the implementation of these management processes. Talisman's regional operations are empowered to organize their HSE programs and systems in ways that are locally meaningful and that address their unique risks and priorities. Talisman audits, both internally and externally, its operations periodically to support continuous improvement and demonstrate compliance. The Company also conducts environmental due diligence on all asset and corporate acquisitions to identify and properly account for pre-existing environmental liabilities.

The oil and gas industry is subject to safety and environmental regulation pursuant to extensive legislation, enacted by various levels of government, both in Canada and internationally. The Company maintains a comprehensive range of internal programs and controls to promote regulatory compliance and an appropriate level of safety and environmental protection across its operations. Public expectation regarding the industry's safety and environmental performance remains high and this continues to translate into new and generally more rigorous policies, legislation and regulations. Within jurisdictions and sectors, these regulatory instruments apply generally and do not typically influence competitive position.

The Company does not anticipate making extraordinary material expenditures for environmental compliance during 2005. However, it does expect to incur site restoration costs over a prolonged period as existing fields become fully produced. Talisman provides for future abandonment and reclamation costs in its financial statements in accordance with Canadian generally accepted accounting principles. Additional information regarding future abandonment and reclamation costs is set forth under note 12 entitled "Contingencies and Commitments" in the audited consolidated financial statements of the Company for the year ended December 31, 2004, which information is incorporated herein by reference.

More information about Talisman's social and environmental policies and its corporate responsibility performance is available on the Company's corporate web site at www.talisman-energy.com. The information available on the web site includes the Ethics Policy, Security Policy, Talisman's annual Corporate Responsibility Report and HSE management framework.

EMPLOYEES

At December 31, 2004, Talisman's permanent staff complement¹ was 1,870, as set forth in the table below.

	Permanent staff complement¹ as at December 31, 2004
North America	1,407
North Sea	288
Southeast Asia	168
Trinidad	5
Algeria	1
Other ²	4
Total	1,870

Notes:

1 Contractors and temporary staff are not included in complement numbers.

2 "Other" includes Qatar.

DESCRIPTION OF CAPITAL STRUCTURE

SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of common shares ("Common Shares") without nominal or par value and an unlimited number of first and second preferred shares. All of the Common Shares are fully paid and non-assessable. As at the date of this Annual Information Form no preferred shares are outstanding.

Holders of Common Shares are entitled to receive notice of and to attend all annual and special meetings of shareholders. Each Common Share carries with it the right to one vote. Subject to the rights of holders of other classes of shares of the Company who are entitled to receive dividends in priority to or rateable with the Common Shares, the Board of Directors may, in its sole discretion, declare dividends on the Common Shares to the exclusion of any other class of shares of the Company. In the event of liquidation, dissolution or winding-up of the Company or any other distribution of assets of the Company among its shareholders for the purpose of winding-up its affairs, and subject to the rights of other classes of shares on a priority basis, the holders of Common Shares are entitled to participate rateably in any distribution of any assets of the Company.

The first preferred shares are issuable in one or more series, each series consisting of the number of shares and having the designation, rights, privileges, restrictions and conditions as are determined before issue by the Board of Directors of the Company. The first preferred shares rank on a parity with the first preferred shares of every other series with respect to declared or accumulated dividends and return of capital. In addition, the first preferred shares are entitled to a preference over the second preferred shares and the Common Shares with respect to the payment of dividends and the distribution of assets of the Company in the event of liquidation, dissolution or winding-up of the Company. The first preferred shares are not, except as required by law and as may be determined by the Board of Directors prior to the issuance of a series, entitled to notice of, or to vote at meetings of shareholders.

The second preferred shares are issuable in one or more series, each series consisting of the number of shares and having the designation, rights, privileges, restrictions and conditions as are determined before issue by the Board of Directors of the Company. The second preferred shares rank on a parity with the second preferred shares of every other series with respect to declared or accumulated dividends and return of capital. In addition, the second preferred shares are entitled to a preference over the Common Shares with respect to the payment of dividends and the distribution of assets of the Company in the event of liquidation, dissolution or winding-up of the Company. The first preferred shares are not, except as required by law and may be determined by the Board of Directors prior to the issuance of a series, entitled to notice of, or to vote at meetings of shareholders.

RATINGS

The Company's senior unsecured long-term debt securities are rated "Baa1" by Moody's Investors Service, Inc. ("Moody's") with a stable outlook, "BBB+" by Standard & Poor's Corporation ("S&P") with a stable outlook and "BBB(high)" with a stable trend by Dominion Bond Rating Service Limited ("DBRS"). Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities and are indicators of the likelihood of payment and of the capacity of a company to meet its financial commitment on the rated obligation in accordance with the terms of the rated obligation.

Moody's credit ratings are on a long-term debt rating scale that ranges from Aaa to C, representing the range from least credit risk to greatest credit risk of such securities rated. Moody's applies numerical modifiers 1, 2 and 3 in each generic rating classification from Aa through Caa in its long term debt rating system. The modifier 1 indicates that the issue ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates that the issue ranks in the lower end of that generic rating category. According to the Moody's rating system, debt securities rated Baa1 are subject to moderate credit risk. They are considered medium-grade and as such, may possess certain speculative characteristics.

S&P's credit ratings are on a long-term debt rating scale that ranges from AAA to D, representing the range from highest to lowest quality of such securities rated. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. According to S&P's rating system, debt securities rated BBB exhibit adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments on the obligations. A stable rating outlook means that a rating is not likely to change.

DBRS' credit ratings are on a long-term debt rating scale that ranges from AAA to D, representing the range from highest to lowest quality of such securities rated. Each rating category between AA and B is denoted by subcategories "high" and "low", the absence of which indicates that the rating is in the "middle" of the category. According to DBRS' rating system, long-term debt securities rated BBB are of adequate credit quality. Protection of interest and principal is considered acceptable, but entities so rated are fairly susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions present which reduce the strength of such entity and its rated securities.

The credit ratings assigned to Talisman's debt securities by the rating agencies are not recommendations to buy, sell or hold the debt securities and may be revised or withdrawn entirely at any time by a rating agency. Credit ratings may not reflect the potential impact of all risks on the value of securities. In addition, real or anticipated changes in the rating assigned to a security will generally affect the market value of that security. There can be no assurance that a rating will remain in effect for a given period of time or that a rating will not be revised or withdrawn entirely by a rating agency in the future.

MARKET FOR THE SECURITIES OF THE COMPANY

The Common Shares of the Company are listed on the Toronto Stock Exchange ("TSX Exchange") and New York Stock Exchange under the trading symbol TLM. The Company's £250,000,000 6.625% Notes are listed on the London Stock Exchange.

TRADING PRICE AND VOLUME

The following sets out the high and low prices and the volume of trading for the Company's Common Shares (as traded on the TSX Exchange) for the periods indicated.

Year	Month	High	Low	Volume
2004	December	34.08	30.30	28,781,260
	November	33.80	30.25	44,735,716
	October	35.10	31.65	26,412,247
	September	32.99	29.28	26,574,196
	August	32.36	28.57	28,311,086
	July	31.95	28.85	26,428,203
	June	30.26	26.13	23,719,094
	May ¹	28.60	26.15	33,866,232
	April	28.12	25.56	24,366,597
	March	27.27	25.08	29,976,492
	February	26.12	23.68	24,000,033
	January	25.83	23.52	32,195,997

Note:

¹ On May 4, 2004, Talisman effected a three for one stock split and the Company's Common Shares began trading on a post-split basis on May 17, 2004. Trading prices and volumes from January 1, 2004 to May 14, 2004 have been adjusted to reflect this share split.

DIVIDENDS

The Company paid semi-annual dividends over the last three-year period on its Common Shares as follows:

Date	Rate Per Common Share ¹
June 28, 2002	\$0.10
December 31, 2002	\$0.10
June 30, 2003	\$0.10
December 31, 2003	\$0.13
June 30, 2004	\$0.15
December 31, 2004	\$0.15

Note:

¹ On May 4, 2004, Talisman effected a three for one stock split. The dividend rate per Common Share from June 28, 2002 to December 31, 2003 has been adjusted to reflect this share split.

The Company's dividend policy is subject to semi-annual review by the Board of Directors.

DIRECTORS AND OFFICERS

Information is given below with respect to each of the current directors and officers of the Company. The term of office of each director expires at the end of the 2005 annual meeting.

DIRECTORS

The directors of the Company are elected annually. The following table sets out the name, province or state and country of residence, year first elected to the Board and principal occupation within the past five years or more of each of the directors of the Company.

Name, Province or State and Country of Residence	Year First Became Director of the Company	Principal Occupation
Douglas D. Baldwin ^{2, 3, 4, 6} Alberta, Canada	2001	Chairman of the Board of the Company; director of various corporations; from 1999 to 2001, President and Chief Executive Officer of TransCanada PipeLines Limited (pipeline and power company); from 1992 to 1998, Senior Vice-President and Director of Imperial Oil Limited (natural resource company); from 1988 to 1992, President and Chief Executive Officer, Esso Resources Canada Limited (natural resource company). Other current directorships ⁷ : TransCanada Corporation, TransCanada PipeLines Limited, UTS Energy Corporation, Citadel Group of Funds, and Resolute Energy Inc.
James W. Buckee ^{2, 5} Alberta, Canada	1992	President and Chief Executive Officer of Talisman Energy Inc.; prior to May 1993, President and Chief Operating Officer of the Company; prior to August 1991, Manager, Planning of BP Exploration Company Ltd. (natural resource company). Other current directorships ⁷ : None.
Kevin S. Dunne ^{3, 5, 6} Tortola, British Virgin Islands	2003	Director of the Company; until March 2003, director of Talisman Energy Sweden AB (a wholly owned subsidiary of the Company); from 1994 until 2001, held various international senior and executive management positions with BP plc (international integrated oil and gas company) including General Manager, Abu Dhabi Company for Onshore Oil Operations (ADCO), a BP joint venture; 1991 to 1994, Corporate Associate President, BP Indonesia; and 1990 to 1991, Corporate Head of Strategy for the BP Group based in London. Other current directorships ⁷ : None.
Al L. Flood, C.M. ^{1, 4} Ontario, Canada	2000	Director of various corporations; from June 1999 to March 2000, Chairman of the Executive Committee of Canadian Imperial Bank of Commerce ("CIBC") (a Canadian chartered bank); prior to June 1999, Chairman and Chief Executive Officer of CIBC and held various positions in the domestic and international operations of CIBC. Other current directorships ⁷ : CIBC and Noranda Inc.
Dale G. Parker ^{1, 5} British Columbia, Canada	1993	Director of various corporations and public administration and financial institution advisor; prior to January 1998, President and Chief Executive Officer of Workers' Compensation Board of British Columbia; prior to November 1994, President of White Spot Limited (food services company) and Executive Vice-President of Shato Holdings Ltd. (food processing and services and real estate company); prior to November 1993, Executive Vice-President and Chief Financial Officer of Shato Holdings Ltd.; prior to November 1992, Chairman and Chief Executive Officer of British Columbia Financial Institutions Commission (regulator of financial institutions). Other current directorships ⁷ : None.

Name, Province or State and Country of Residence	Year First Became Director of the Company	Principal Occupation
Lawrence G. Tapp ^{3, 4} British Columbia, Canada	2001	<p>Chairman of ATS Automation Tooling Systems Inc. (industrial automation company); director of various corporations; from 1995 to 2003, Dean of the Richard Ivey School of Business of the University of Western Ontario; from 1992 to 1995, Executive in Residence of the Faculty of Management and Adjunct Professor, University of Toronto; from 1985 to 1992, Vice Chairman, President and Chief Executive Officer of Lawson Mardon Group Limited (packaging conglomerate).</p> <p>Other current directorships⁷: ATS Automation Tooling Systems Inc., Call-Net Enterprises Inc., Wescast Industries Inc., CCL Industries Inc. and Mainstreet Equity Corp.</p>
Stella M. Thompson ^{2, 4, 5} Alberta, Canada	1995	<p>Principal of Governance West Inc. (corporate governance consulting company); President of Stellar Energy Ltd. (energy and management consulting company); director of various corporations; prior to June 1991, Vice-President, Planning, Business Information & Systems of Petro-Canada Products (petroleum refining and marketing company).</p> <p>Other current directorships⁷: None.</p>
Robert G. Welty ^{1, 3} Alberta, Canada	2003	<p>Chairman, Chief Executive Officer and director of Sterling Resources Ltd. (oil and gas exploration and development company) since 1998; 1996 to 1997, President, Escondido Resources (International) Ltd. (oil and gas exploration company); 1994 to 1995, President and Chief Executive Officer of Canadian Fracmaster Ltd. (oil field service company); 1992 to 1994, President and Chief Executive Officer of Bow Valley Energy Inc. (oil and gas exploration and development company); 1976 to 1988, President and Chief Executive Officer of Asameria Inc. (oil and gas exploration and development company).</p> <p>Other current directorships⁷: Sterling Resources Ltd. and Pan-Ocean Energy Corporation Limited.</p>
Charles W. Wilson ^{1, 2, 6} Colorado, United States	2002	<p>Director of various corporations; from 1993 to 1999, President and Chief Executive Officer of Shell Canada (integrated oil and gas company); from 1988 to 1993, Executive Vice President US Downstream Oil and Chemical of Shell Oil US (integrated oil and gas company); prior to 1988, Vice President US Refining and Marketing of Shell Oil US and held various positions in the domestic and international natural resource operations of Shell.</p> <p>Other current directorships⁷: ATCO Ltd., Akita Drilling Ltd., Big Rock Brewery Ltd. and Canadian Utilities Limited.</p>

Notes:

- 1 Member of the Audit Committee
- 2 Member of the Executive Committee
- 3 Member of the Governance and Nominating Committee
- 4 Member of the Management Succession and Compensation Committee
- 5 Member of the Pension Funds Committee
- 6 Member of the Reserves Committee
- 7 Refers only to issuers that are reporting issuers or the equivalent in a foreign jurisdiction

OFFICERS

The following table sets out the name, province and country of residence and office held with Talisman of each of the executive officers and Assistant Corporate Secretaries of the Company.

Name and Province or State and Country of Residence	Office
James W. Buckee Alberta, Canada	President and Chief Executive Officer
Ronald J. Eckhardt Alberta, Canada	Executive Vice-President, North American Operations
T. Nigel D. Hares Alberta, Canada	Executive Vice-President, Frontier and International Operations
Joseph E. Horler Alberta, Canada	Executive Vice-President, Marketing
Michael D. McDonald Alberta, Canada	Executive Vice-President, Finance and Chief Financial Officer
Robert M. Redgate Alberta, Canada	Executive Vice-President, Corporate Services
M. Jacqueline Sheppard Alberta, Canada	Executive Vice-President, Corporate and Legal, and Corporate Secretary
John 't Hart Alberta, Canada	Executive Vice-President, Exploration
Christine D. Lee Alberta, Canada	Assistant Corporate Secretary
Ardith D. Wagner Alberta, Canada	Assistant Corporate Secretary

In early 2003, the Company changed the titles of all its vice-presidents to better reflect the roles and responsibilities of their continuing offices. Mr. McDonald has held his current position since March 12, 2001. Prior to that date, he served as Vice-President, Business Development of the Company. Dr. 't Hart has held his current position since June 25, 2003. Prior to that, he served as Senior Manager, International Exploration of the Company since April 1, 2003 and prior to that, he served as Manager, International Exploration of the Company. Mr. Eckhardt has held his current position since October 1, 2003. Prior to that, he served as Vice-President, Southern District of North American Operations of the Company since January 23, 2003, and prior to that he served as Senior Manager, Western Operations and prior to that as Manager, Eastern Operations of the Company. All of the other executive officers of the Company have held their offices for at least five years.

Dale G. Parker, a director of the Company, was a director of Royal Oak Mines Inc., a publicly traded North American gold mining corporation, and a director of Agro Pacific Industries Ltd., a publicly traded agricultural corporation, when each corporation instituted proceedings under the *Companies' Creditors Arrangement Act* (Canada). In 2003, Stella M. Thompson, a director of the Company, was a director of Laidlaw Inc., a public holding company, when it obtained an order in the United States Bankruptcy Court for the Western District of New York confirming its plan of reorganization and an order from the Ontario Superior Court of Justice under the *Companies' Creditors Arrangement Act* (Canada) recognizing and implementing the plan in Canada. In 2003, a small, private technology company, for which Michael McDonald (an officer of the Company) served as a director, declared bankruptcy.

SHAREHOLDINGS OF DIRECTORS AND EXECUTIVE OFFICERS

As of March 1, 2005, the directors and executive officers of the Company, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 391,395 Common Shares of the Company, representing 0.1% of the issued and outstanding Common Shares of the Company.

CONFLICTS OF INTEREST

Certain directors of the Corporation and its subsidiaries are associated with other reporting issuers or other corporations which may give rise to conflicts of interest. In accordance with the *Canada Business Corporations Act*, directors and officers of the Company are required to disclose to the Company the nature and extent of any interest that they have in a material contract or material transaction, whether made or proposed, with the Company, if the director or officer is: (a) a party to the contract or transaction; (b) is a director or an officer, or an individual acting in a similar capacity, of a party to the contract or transaction; or (c) has a material interest in a party to the contract or transaction.

As described in "Social Responsibility and Environmental Protection", Talisman has adopted the Policy on Business Conduct and Ethics (previously defined as the "Ethics Policy") which applies to all directors, officers and employees of Talisman and its subsidiaries. As required by the Ethics Policy, individuals representing Talisman must not enter into outside activities, including business interests or other employment, that might interfere with or be perceived to interfere with their performance at Talisman. In addition, Talisman officers and employees are required to abide by an internal Conflict of Interest in Employment Policy.

AUDIT COMMITTEE INFORMATION

Information concerning the Audit Committee of the Company, as required by Multilateral Instrument 52-110, is provided in Schedule C to this Annual Information Form.

LEGAL PROCEEDINGS

From time to time, Talisman is the subject of litigation arising out of the Company's operations. Damages claimed under such litigation, including the litigation discussed below may be material or may be indeterminate and the outcome of such litigation may materially impact the Company's financial condition or results of operations. While Talisman assesses the merits of each lawsuit and defends itself accordingly, the Company may be required to incur significant expenses or devote significant resources to defend itself against such litigation. These claims are not currently expected to have a material impact on the Company's financial position.

Talisman continues to be subject to a lawsuit brought by the Presbyterian Church of Sudan and others commenced in November 2001 under the *Alien Tort Claims Act* in the United States District Court for the Southern District of New York. The lawsuit, which is seeking class action status, alleges that the Company conspired with, or aided and abetted, the Government of Sudan to commit violations of international law in connection with the Company's now disposed of interest in oil operations in Sudan. In December 2004, Talisman filed a motion for judgement on the pleadings, seeking dismissal of the lawsuit on the grounds that the court lacks subject matter jurisdiction to hear the lawsuit, and filed its opposition papers to the certification of the lawsuit as a class action. No decision is expected on either of these motions prior to the end of March 2005. Talisman believes the lawsuit to be entirely without merit and is continuing to vigorously defend itself and does not expect the lawsuit to have a material adverse effect.

RISK FACTORS

Talisman is exposed to a number of risks inherent in exploring for, developing and producing crude oil and natural gas. This section describes the risks and other matters that would be most likely to influence an investor's decision to purchase securities of Talisman.

Uncertainty of Reserves Estimates

The process of estimating oil and gas reserves is complex and involves a significant number of decisions and assumptions in evaluating available geological, geophysical, engineering and economic data; therefore, reserves estimates are inherently uncertain. Talisman prepares all of its reserves information internally. The Company may adjust estimates of proved reserves based on production history, results of exploration and development drilling, prevailing oil and gas prices and other factors, many of which are beyond the Company's control. In addition, there are numerous uncertainties in forecasting the amounts and timing of future production, costs, expenses and the results of exploration and development projects. All estimates are, to some degree, uncertain and classifications of reserves are only attempts to define the degree of uncertainty involved. For these reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, the classification of such reserves based on risk of recovery and the standardized measure of discounted future net cash flows, prepared by different engineers or by the same engineers at different times, may vary substantially. Talisman's actual production, taxes and development and operating expenditures with respect to its reserves will likely vary from such estimates, and such variances could be material.

Estimates with respect to reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reservoirs, rather than upon actual production history. Estimates based on these methods generally are less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations, which may be material, in the estimated reserves.

Ability to Find, Develop or Acquire Additional Reserves

The Company's future success depends largely on its ability to find, develop or acquire additional oil and gas reserves that are economically recoverable. Exploration and development drilling may not result in commercially productive reserves. Successful acquisitions require an assessment of a number of factors, many of which are uncertain. These factors include recoverable reserves, exploration potential, future oil and gas prices, operating costs and potential environmental and other liabilities. Such assessments are inexact and their accuracy is inherently uncertain.

Political Risks

The Company's operations may be adversely affected by changes in governmental policies and legislation or social instability or other political or economic developments which are not within the control of Talisman including, among other things, a change in crude oil or natural gas pricing policy, the risks of war, terrorism, abduction, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, taxation policies, economic sanctions, the imposition of specific drilling obligations, the development and abandonment of fields and fluctuating exchange rates and currency controls. In addition, both Indonesia and Algeria are members of the Organization of Petroleum Exporting Countries ("OPEC"). Talisman's operations in these countries may therefore be impacted by the application of OPEC production quotas. Indonesia, Algeria, Colombia and Peru have been subject to recent economic or political instability and social unrest, military or rebel hostilities. In addition, Talisman regularly evaluates opportunities worldwide, and may in the future engage in projects or acquire properties in other nations that are experiencing economic or political instability and social unrest or military hostilities or are subject to United Nations or United States sanctions.

Operational Hazards and Responsibilities

Oil and gas drilling and producing operations are subject to many risks including the possibility of fire, explosions, mechanical failure, pipe failure, chemical spills, accidental flows of oil, natural gas or well fluids, sour gas releases, and other occurrences or accidents which could result in personal injury or loss of life, damage or destruction of properties, environmental damage, interruption of business, regulatory investigations and penalties and liability to third parties. The Company has developed a comprehensive HSE management framework to mitigate physical risks. The Company also mitigates insurable risks to protect against significant losses by maintaining a comprehensive insurance program, while maintaining levels and amounts of risk within the Company which management believes to be acceptable. Talisman believes its liability, property and business interruption insurance is appropriate to its business and consistent with common industry practice, although such insurance will not provide coverage in all circumstances.

Volatility of Oil and Natural Gas Prices

Talisman's financial performance is highly sensitive to prevailing prices of crude oil and natural gas. Fluctuations in crude oil or natural gas prices could have a material adverse effect on the Company's operations and financial condition, the value of its oil and natural gas reserves, and its level of spending for oil and gas exploration and development. Prices for crude oil and natural gas fluctuate in response to changes in the supply of and demand for crude oil and natural gas, market uncertainty and a variety of additional factors that are largely beyond the Company's control. Oil prices are determined by international supply and demand. Factors which affect crude oil prices include the actions of OPEC, world economic conditions, government regulation, political stability in the Middle East and elsewhere, the availability of alternative fuel sources and weather conditions. Most natural gas prices realized by Talisman are affected primarily by North American supply and demand, weather conditions and by prices of alternative sources of energy. The development of oil and natural gas discoveries in offshore areas is particularly dependent on the outlook for oil and natural gas prices because of the large amount of capital expenditure required for development prior to commencing production.

A substantial and extended decline in the prices of crude oil or natural gas could result in delay or cancellation of drilling, development or construction programs, or curtailment in production or result in unutilized long-term transportation commitments all of which could have a material adverse impact on the Company. The amount of cost oil required to recover Talisman's investment and costs in various production sharing contracts is dependent on commodity prices, with higher commodity prices resulting in a lower amount of net after royalty oil and gas reserves booked by the Company.

Talisman conducts an annual assessment of the carrying value of its assets in accordance with Canadian generally accepted accounting principles ("GAAP"). If oil and natural gas prices decline, the carrying value of the Company's assets could be subject to downward revisions, which could adversely affect Talisman's reported income for the periods in which the revisions are made. However, Talisman believes that estimates of forward-looking prices it uses in its planning process are realistic.

Litigation

From time to time, Talisman is the subject of litigation arising out of the Company's operations. Specific disclosure of current legal proceedings, and the risks associated with current proceedings and litigation generally, are disclosed under the heading "Legal Proceedings" in this Annual Information Form.

Environmental Risks

All phases of the oil and natural gas business are subject to environmental regulation pursuant to a variety of laws and regulations in the countries in which Talisman does business. These regulatory regimes are laws of general application that apply to the Company's business in the same manner as they apply to other companies or enterprises in the energy industry. Environmental legislation imposes, among other things, restrictions, liabilities and obligations in connection with the generation, handling, storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances to the environment. Environmental legislation also requires that pipelines, wells, facility sites and other properties associated with Talisman's operations be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Certain types of operations, including exploration and development projects, may require the submission and approval of environmental impact assessments or permit applications. In some cases, exploration and development activities may be precluded or restricted due to designation of areas as environmentally sensitive areas. Compliance with environmental legislation can require significant expenditures and failure to comply with environmental legislation may result in the imposition of fines and penalties and liability for clean up costs and damages. Additionally, the Company's business is subject to the trend toward increased civil liability for environmental matters. Although Talisman currently believes that the costs of complying with environmental legislation and dealing with environmental civil liabilities will not have a material adverse effect on the Company's financial condition or results of operations, there can be no assurance that such costs in the future will not have such an effect. Talisman expects to incur site restoration costs over a prolonged period as existing fields are depleted. The Company provides for future abandonment and reclamation costs in its annual consolidated financial statements in accordance with Canadian GAAP. Additional information regarding future abandonment and reclamation costs is set forth in the notes to the annual consolidated financial statements.

In 1994, the United Nations' Framework Convention on Climate Change came into force and three years later led to the Kyoto Protocol (the "Protocol"). The Protocol came into force on February 16, 2005 and requires certain nations to reduce their emissions of carbon dioxide and other greenhouse gases. Under the terms of the Protocol, Canada will be required to reduce its greenhouse gas ("GHG") emissions to 6% below 1990 levels over the period beginning in 2008 and ending in 2012. Currently, Canadian oil and gas producers are in discussions with the provincial and federal levels of government regarding implementation mechanisms for the industry. It is premature to predict what impact implementation could have on Canadian oil and gas producers but it is likely that any mandated reduction in GHG emissions will result in increased costs. The federal government has stated that these costs would not be expected to exceed \$15/tonne of carbon dioxide emissions reduced and that producers would not be required to reduce GHG emissions per unit of production by more than 15%. The federal government has also indicated its support for several important principles that are intended to protect the competitiveness of the oil and gas industry beyond 2012, including a 10-year emissions target lock-in period for all new projects and additional flexibility mechanisms for achieving compliance.

The UK has also ratified the Kyoto Protocol, with a reduction commitment of 12.5% below 1990 levels by 2008 – 2012. Talisman's UK installations will participate in the first phase of the European Union Emission Trading Scheme ("EU ETS"), which runs from 2005 to 2007, inclusive. The UK Government's revised National Allocation Plan ("NAP") for the first phase of the EU ETS has yet to be approved by the European Commission. The NAP will specify a cap on carbon dioxide emissions for the covered sectors, the methods for allocating emission allowances to covered installations and the number of emission allowances to be allocated to each covered installation. Cost of compliance will vary with a number of factors including the final allocation numbers and liquidity of the carbon markets.

Dependence on Other Operators

Other companies operate some of the assets in which Talisman has interests. As a result, Talisman may have limited ability to exercise influence over operations of these assets or their associated costs, which could adversely affect the Company's financial performance. The success and timing of Talisman's activities on assets operated by others will therefore depend on a number of factors that may be outside of the Company's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and the risk of management practices.

Differences in Ownership Interests in Foreign Operations

In Canada and the United States, the state or private land owners own oil and gas rights and lease those rights to corporations who are responsible for the development of such rights within the time frames described in the leases. This practice differs distinctly in some foreign countries in which Talisman does or may do business in the future. In those countries, the state often grants interests in large tracts of lands or offshore fields and

maintains control over the development of the oil and gas rights, in some cases through equity participation in the exploration and development of the rights. This usually includes the imposition of obligations on Talisman to complete minimum work within specified timeframes. Transfers of interests typically require a state approval, which may delay or otherwise impede transfers. In addition, if a dispute arises in Talisman's foreign operations, the Company may be subject to the exclusive jurisdiction of foreign arbitration tribunals or foreign courts.

Competition

The petroleum industry is highly competitive. Specific disclosure regarding competition is disclosed under the heading "Competitive Conditions" in this Annual Information Form.

Exchange Rate Fluctuations

Talisman's consolidated financial statements are presented in Canadian dollars. Results of operations are affected primarily by the exchange rates between the Canadian dollar, the United States dollar and United Kingdom pounds sterling. These exchange rates have varied substantially in the last five years. Most of the Company's revenue is received in or is referenced to United States dollar denominated prices, while the majority of Talisman's expenditures are denominated in Canadian dollars, United States dollars and United Kingdom pound sterling. A change in the relative value of the Canadian dollar against the United States dollar would also result in an increase or decrease in Talisman's United States dollar denominated debt, as expressed in Canadian dollars and the related interest expense. Talisman is also exposed to fluctuations in other foreign currencies.

Dependence on Management

The success of Talisman is dependent upon its management and the quality of its personnel. Failure to retain current employees or to attract and retain new employees with the necessary skills could have a materially adverse effect on Talisman's growth and profitability.

TRANSFER AGENTS AND REGISTRARS

Computershare Trust Company of Canada at 600, 530 - 8th Avenue S.W., Calgary, Alberta, T2P 3S8, along with its co-transfer agent, Computershare Investor Services, LLC, is the transfer agent and registrar for the Common Shares of the Company. Computershare Trust Company of Canada also acts as trustee for various public debt securities and JP Morgan Chase, London Branch, of Trinity Tower, 9 Thomas More Street, London, E1W 1YT, United Kingdom, acts as trustee for the 6.625% unsecured notes listed on the London Stock Exchange. The Company has not retained transfer agents for any other outstanding securities.

INTERESTS OF EXPERTS

Talisman's auditor is Ernst & Young LLP, Chartered Accountants, Ernst & Young Tower, 1000, 440 - 2nd Avenue S.W., Calgary, Alberta, T2P 5E9. The Company's audited consolidated financial statements for the year ended December 31, 2004 have been filed under National Instrument 51-102 in reliance on the report of Ernst & Young LLP, independent chartered accountants, given on their authority as experts in auditing and accounting.

Mr. Michael Adams, an employee of Talisman, has provided the report on reserves data attached as Schedule A to this Annual Information Form in his capacity as Talisman's Internal Qualified Reserves Evaluator. Mr. Adams owns less than 1% of the outstanding Common Shares.

ADDITIONAL INFORMATION

Additional information related to the Company may be found on SEDAR at www.sedar.com.

Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, is contained in the Company's management information circular for its most recent annual meeting of security holders that involved the election of directors. Additional financial information is provided in the Company's audited consolidated financial statements for the year ended December 31, 2004 and related annual management's discussion and analysis.

Copies of the Company's Annual Report may be obtained from Talisman's website at www.talisman-energy.com or upon request from:

Investor Relations and Corporate Communications Department

Talisman Energy Inc.
Suite 3400, 888 Third Street S.W.
Calgary, Alberta, T2P 5C5
E-Mail: tlm@talisman-energy.com

SCHEDULE A

REPORT ON RESERVES DATA BY TALISMAN'S INTERNAL QUALIFIED RESERVES EVALUATOR

To the Board of Directors of Talisman Energy Inc. (the "Company"):

1. The Company's staff and I have evaluated the Company's reserves data as at December 31, 2004. The reserves data, which has been prepared in accordance with U.S. disclosure requirements, including the relevant definitions, legal requirements and standards of the United States Securities and Exchange Commission and the United States Financial Accounting Standards Board ("U.S. Disclosure Requirements"), consist of the following:
 - (a) proved oil and gas reserves quantities estimated as at December 31, 2004; and
 - (b) the related standardized measure of discounted future net cash flows.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.
3. We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society) applied in such modified manner as we considered necessary to reflect the terminology and standards of the U.S. Disclosure Requirements. We are not independent of the Company, within the meaning of the term "independent" under those standards.
4. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook as modified as set out above.
5. The following sets forth the standardized measure of discounted future net cash flows (after deducting income taxes) attributed to proved oil and gas reserve quantities, calculated using a discount rate of 10%, included in the reserves data of the Company evaluated for the year ended December 31, 2004:

Location of Reserves (country or foreign geographic area)	Standardized Measure of Discounted Future Net Cash Flows (millions of Canadian dollars, after income taxes, 10% discount rate)
Canada	\$ 5,354
United States	\$ 490
North Sea	\$ 2,154
Southeast Asia	\$ 1,504
Algeria	\$ 423
Trinidad	\$ 235
	\$ 10,160

6. In our opinion, the reserves data evaluated by us have, in all material respects, been determined in accordance with the COGE Handbook applied in the modified manner as set out above.
7. We have no responsibility to update our evaluation for events and circumstances occurring after the date of this report.
8. Reserves data are estimates only and not exact quantities. In addition, the reserves data are based on judgements regarding future events. Accordingly, actual results will vary and the variations may be material.

(Signed)
Michael Adams
Internal Qualified Reserves Evaluator
Talisman Energy Inc.
Calgary, Alberta
March 14, 2005

SCHEDULE B

REPORT ON MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE

Management of Talisman Energy Inc. (the "Company") is responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data prepared in accordance with U.S. disclosure requirements, including the relevant definitions, legal requirements and standards of the United States Securities and Exchange Commission and the United States Financial Accounting Standards Board ("U.S. Disclosure Requirements"), which consist of the following:

- (a) proved oil and gas reserve quantities estimated as at December 31, 2004; and
- (b) the related standardized measure of discounted future net cash flows.

The Company's reserves evaluation staff, including our Internal Qualified Reserves Evaluator who is an employee of the Company, have evaluated the Company's reserves data. The report of the Internal Qualified Reserves Evaluator accompanies this report.

The Reserves Committee of the Board of Directors has:

- (a) reviewed the Company's procedures for providing information to the Internal Qualified Reserves Evaluator;
- (b) met with the Internal Qualified Reserves Evaluator to determine whether any restrictions placed by management affect the ability of the Internal Qualified Reserves Evaluator to report without reservation; and
- (c) reviewed the reserves data with management and the Internal Qualified Reserves Evaluator.

The Reserves Committee of the Board of Directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The Board of Directors has, on the recommendation of the Reserves Committee, approved:

- (a) the content and filing with securities regulatory authorities of the reserves data and other oil and gas information contained in the Annual Information Form accompanying this report;
- (b) the filing of the report of the Internal Qualified Reserves Evaluator on the reserves data; and
- (c) the content and filing of this report.

In our view, the reliability of the internally generated reserves data is not materially less than would be afforded by our involving independent qualified reserves evaluators or independent qualified reserves auditors to evaluate or audit and review the reserves data. The Company is therefore relying on an exemption, which it sought and was granted by securities regulatory authorities, from the requirement under securities legislation to involve independent qualified reserves evaluators or independent qualified reserves auditors.

The primary factors supporting the involvement of independent qualified reserves evaluators or independent qualified reserves auditors apply when (i) their knowledge of, and experience with, a reporting issuer's reserves data are superior to that of the internal evaluators and (ii) the work of the independent qualified reserves evaluators or independent qualified reserves auditors is significantly less likely to be adversely influenced by self-interest or management of the reporting issuer than the work of internal reserves evaluation staff. In our view, neither of these factors applies in our circumstances.

Our view is based in large part on the following. Our reserves data were developed in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook applied in such modified manner as the Company considered necessary to reflect the terminology and standards of the U.S. Disclosure Requirements. Our procedures, records and controls relating to the accumulation of source data and preparation of reserves data by our internal reserves evaluation staff have been established, refined and documented over many years. Our internal reserves evaluation staff includes approximately 104 persons with full-time or part-time responsibility for reserves evaluation with an average of approximately 17 full-time or part-time years of relevant experience in evaluating reserves, of whom 47 are qualified reserves evaluators for purposes of securities regulatory requirements. Our internal reserves evaluation management personnel includes approximately 26 persons with full-time or part-time responsibility for reserves evaluation management with an average of approximately 23 full-time or part-time years of relevant experience in evaluating and managing the evaluation of reserves, 14 of whom were qualified reserves evaluators for purposes of securities regulatory requirements.

Reserves data are estimates only, and are not exact quantities. In addition, the reserves data are based on judgements regarding future events. Accordingly, actual results will vary and the variations may be material.

(Signed)

James W. Buckee

President and Chief Executive Officer

(Signed)

T. Nigel D. Hares

Executive Vice-President,

Frontier and International Operations

(Signed)

Ronald J. Eckhardt

Executive Vice-President,

North American Operations

(Signed)

Charles W. Wilson

Director

(Signed)

Kevin S. Dunne

Director

March 14, 2005

SCHEDULE C **AUDIT COMMITTEE INFORMATION**

COMPOSITION OF AUDIT COMMITTEE

Talisman's Audit Committee consists of Al L. Flood, Dale G. Parker, Robert G. Welty (Chairman) and Charles W. Wilson. The Board of Directors has determined that all members of the Audit Committee are "independent" and "financially literate" as defined in Multilateral Instrument 52-110 ("MI 52-110"). In addition, in accordance with New York Stock Exchange corporate governance listing standards, the Board of Directors has determined that Robert G. Welty is an audit committee financial expert.

MI 52-110 states that a member of an audit committee is independent if the member has no direct or indirect material relationship with the issuer. A material relationship is a relationship which could, in the view of the issuer's Board of Directors, reasonably interfere with the exercise of a member's independent judgement.

In addition, an individual is considered financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the issuers' financial statements.

EDUCATION AND EXPERIENCE

The members of Talisman's Audit Committee have education and experience relevant to the performance of their responsibilities as an Audit Committee member, which includes the following:

Al L. Flood held various positions in the Canadian Imperial Bank of Commerce ("CIBC"), including Chairman of the Executive Committee from 1999 to 2000, Chief Executive Officer and Chairman from 1992 to 1999, and director from 1989 to 2000. Mr. Flood currently serves on the board of directors of Canadian Imperial Bank of Commerce and Noranda Inc. Mr. Flood is a graduate of the program for management development, Graduate School of Business, Harvard University.

Dale G. Parker held various positions with the Bank of Montreal, including Executive Vice President & Group Executive, Commercial Banking. In 1985, he became President, Canadian Banking Operations for the Bank of British Columbia, and from 1987 to 1989, he served as Chairman, President and Chief Executive Officer of B.C. Bancorp (formerly the Bank of British Columbia). Mr. Parker also served as Chairman of the Financial Institutions Commission for British Columbia until 1994. Mr. Parker has served in executive capacities with other companies and institutions including President of White Spot Ltd. and President and Chief Executive Officer of the Worker's Compensation Board of British Columbia. Mr. Parker completed the three year Executive Development Program at McGill University and the Advanced Management Program at Harvard Business School.

Robert G. Welty, Chairman of the Audit Committee, is currently Chairman, Chief Executive Officer and director of Sterling Resources Ltd., a publicly traded junior energy company with international activities. He served as President, Chief Executive Officer and Director of Canadian Fracmaster Ltd., an international oilfield service and production company, from 1994 to 1995. Mr. Welty was also President, Chief Executive Officer and Director of Bow Valley Energy Inc. from 1992 to 1994, a Calgary based international oil and gas company which was subsequently acquired by Talisman. He currently serves on the board of directors of Sterling Resources Ltd. and Pan-Ocean Energy Corporation Limited. Mr. Welty holds a B.A. Honors, Economics (First Class) from Simon Fraser University and is a Chartered Accountant.

Charles W. Wilson held various positions with the Shell group of companies, including President, Chief Executive Officer and Director of Shell Canada Limited from 1993 to 1999, Executive Vice President US Downstream Oil and Chemical of Shell Oil US from 1988 to 1993 and Vice-President US Refining and Marketing of Shell Oil US (1987 to 1988). He currently serves on the board of directors of ATCO Ltd., Akita Drilling Ltd., Big Rock Brewery Ltd. and Canadian Utilities Limited. Mr. Wilson has a BS., Civil Engineering and a M.S. Engineering from the University of New Mexico.

AUDIT FEES AND PRE-APPROVAL OF AUDIT SERVICES

The following table presents fees for the audits of the Company's annual consolidated financial statements for 2004 and 2003 and for other services provided by Ernst & Young LLP:

	2004	2003
Audit fees	\$ 2,050,000	\$ 1,690,200
Audit-related fees	\$ 220,000	\$ 409,000
Tax fees	\$ 1,334,000	\$ 1,147,400
All other fees	\$ 30,000	\$ 92,400

The audit-related fees are primarily for prospectus filings, pension plan audits and attestation procedures related to cost certifications and government compliance. Tax fees are primarily for tax compliance and tax advisory services. All other fees are primarily for advisory services. The Audit Committee has concluded that the provision of tax services is compatible with maintaining Ernst & Young's independence.

Under the terms of reference of the Audit Committee which follow, the Audit Committee is required to review and pre-approve the objectives and scope of the external audit work and proposed fees. In addition, the Audit Committee is required to review and pre-approve all non-audit services, including tax services, the Company's external auditors are to perform.

During 2003, the Audit Committee implemented specific procedures regarding the pre-approval of services to be provided by the Company's external auditors. These procedures specify certain prohibited services that are not to be performed by the Company's external auditors. In addition, these procedures require that at least annually, prior to the period in which the services are proposed to be provided, the Company's management, in conjunction with the Company's external auditors, prepares and submits to the Audit Committee a complete list of all proposed services and related fees to be provided to the Company by the Company's external auditors. Under the Audit Committee pre-approval procedures, for those services proposed to be provided by the Company's external auditors that have not been previously approved by the Audit Committee, the Audit Committee has delegated to the Chairman of the Audit Committee the authority to grant pre-approvals of such services. The decision to pre-approve a service covered under this procedure is presented to the full Audit Committee at the next scheduled meeting. At each of the Audit Committee's regular meetings, the Audit Committee is provided an update as to the status of services previously approved.

Pursuant to these procedures since their implementation in 2003, 100% of each of the services relating to fees reported as audit-related, tax and all other were pre-approved by the Audit Committee or its delegate, the Chair of the Audit Committee.

The full text of the terms of reference for Talisman's Audit Committee follows.

TERMS OF REFERENCE AUDIT COMMITTEE

MISSION STATEMENT

The Audit Committee's mission is to assist the Board in fulfilling its obligations by overseeing and monitoring the Company's financial accounting and reporting process and the integrity of the Company's financial statements and its internal control over financial reporting and the external financial audit process. To fulfill this mission, the Audit Committee has received this mandate and has been delegated certain authorities that it may exercise on behalf of the Board.

COMPOSITION

At the first meeting of the Board of Directors of the Company after the election of Directors at the annual meeting of shareholders, the Board shall appoint an Audit Committee comprised of not less than three and not more than six Directors of the Company. Each member of the Audit Committee shall be independent (as required by applicable securities laws and stock exchange rules). At least one member of the Audit Committee shall be an audit committee financial expert and all members of the Audit Committee shall have an appropriate level of financial literacy as required under applicable stock exchange rules and securities laws and determined by the Board from time to time. The Board may replace or remove from the Audit Committee any member at any time.

The Chair of the Audit Committee shall be appointed by the Board at the meeting of the Board referred to above. The Chair shall preside as chair at each Committee meeting, lead Committee discussion on meeting agenda items and report to the Board, on behalf of the Committee, with respect to the proceedings of each Committee meeting. The Audit Committee shall designate a Secretary to the Audit Committee who may be a member of the Audit Committee or an officer or employee of the Company. The Secretary shall keep minutes and records of all meetings of the Audit Committee. In the event that either the Chair or the Secretary is absent from any meeting, the members present shall designate any Director present to act as Chair and shall designate any Director, officer or employee of the Company to act as Secretary.

MEETINGS

Meetings of the Audit Committee, including telephone conference meetings, shall be held at such time and place as the Chair of the Audit Committee may determine. Notice of meetings shall be given to each member not less than 24 hours before the time of the meeting, provided that meetings of the Audit Committee may be held without formal notice if all of the members are present and do not object to notice not having been given, or if those absent waive notice in any manner before or after the meeting.

Notice of meeting may be given verbally or delivered personally, given by mail, facsimile or other electronic communication and need not be accompanied by an agenda or any other material. The notice shall however specify the purpose or purposes for which the meeting is being held.

At the request of the auditor of the Company (the "Auditor"), the Chief Executive Officer, the Chief Financial Officer or a member of the Audit Committee, the Chair shall call and convene a meeting of the Audit Committee.

Any three members of the Audit Committee shall constitute a quorum.

The Audit Committee shall meet at least quarterly.

Representatives of the Auditor and management of the Company shall have access to the Audit Committee each in the absence of the other. The Auditor shall be notified of all meetings of the Audit Committee and, when appropriate, it may attend and be heard at any such meeting and shall attend if requested to do so by a member of the Audit Committee.

Any matter the Audit Committee does not unanimously approve will be referred to the Board for consideration.

No alteration to the roles and responsibilities of the Audit Committee shall be effective without the approval of the Board of Directors.

The Audit Committee shall review the adequacy of these Terms of Reference on an annual basis and recommend any changes it considers appropriate to the Governance and Nominating Committee, which shall in light of the Company's governance structure and framework recommend any changes it considers appropriate to the Board of Directors.

ROLE AND RESPONSIBILITIES

A. FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

The Audit Committee shall:

1. oversee the Company's financial reporting process on behalf of the Board and report on the results of these activities to the Board;
2. review the Company's annual financial statements and, if determined to be satisfactory, recommend them to the Board for approval;
3. review and, if determined to be satisfactory, recommend to the Board for approval the annual earnings press release and management's discussion and analysis of operations contained in the annual report and their consistency with the financial statements;
4. review and, if determined to be satisfactory, approve the Company's interim financial statements prior to their publication, filing or delivery to security holders;
5. review and, if determined to be satisfactory, approve all interim earnings press releases and management's discussion and analysis of operations which accompanies interim financial statements;
6. ensure that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements, other than the public disclosure referred to in items 2 to 5 above, and periodically assess the adequacy of those procedures;
7. review the appropriateness of any report or opinion proposed to be rendered in connection with the year-end consolidated financial statements;

8. review the nature, substance and appropriateness of significant accruals, reserves and other estimates;
9. review the appropriateness of impairment provisions;
10. review with the Auditor and with the management of the Company and, if determined to be satisfactory, approve on behalf of the Board all financial statements included in a prospectus or other similar document; and
11. review and assess regularly:
 - (a) the quality and acceptability of accounting policies and financial reporting practices used by the Company;
 - (b) any significant proposed changes in financial reporting and accounting policies and practices to be adopted by the Company;
 - (c) any new or pending developments, in accounting and reporting standards that may affect the Company;
 - (d) the key financial estimates and judgements of management that may be material to the financial reporting of the Company;
 - (e) policies related to financial disclosure risk assessment and management; and
 - (f) responses by management to material information requests from government or regulatory authorities which may have an impact on the financial reporting of the Company.

B. EXTERNAL AUDIT

The Auditor shall be ultimately accountable to the shareholders of the Company, who shall be represented by the Board of Directors and the Audit Committee in their dealings with the Auditor. The Audit Committee shall recommend to the Board the auditor that will be proposed at the annual shareholders' meeting for appointment as the Auditor for the ensuing year. The Auditor shall report directly to the Audit Committee, which shall be responsible for compensation and retention of the Auditor and oversight of the Auditor's work (including resolution of disagreements between management and the Auditor regarding financial reporting).

At least annually, the Audit Committee shall require that the Auditor provide a formal written statement describing: (i) the firm's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (iii) all relationships between the Auditor and the Company.

With respect to (iii) above and for more clarity, annually the Audit Committee shall obtain a written letter from the Auditor pursuant to the Independence Standards Board standard #1 disclosing all relationships between the Auditor and its related entities and the Company and its related entities, and confirming the Auditor's independence from the Company.

The Audit Committee shall not recommend to the Board that an auditor be appointed as the Auditor if the Company's Chief Executive Officer, Chief Financial Officer or Controller was employed by the auditor and participated in any capacity in the Company's audit during the one-year period preceding the date of the initiation of the Company's audit for which the Audit Committee is recommending the appointment. The Audit Committee shall review management's policies for hiring partners, employees and former partners and employees of the Auditor and former external auditor of the Company. The Audit Committee further shall ensure the independence of the Auditor by reviewing, and discussing with the Board if necessary, any relationships that may adversely affect the independence of the Auditor.

The Audit Committee shall review the planning and results of external audit activities and the ongoing relationship with the Auditor. In this regard the Audit Committee shall:

1. review and, if determined to be satisfactory, pre-approve the terms of the annual external audit engagement plan, including but not limited to the following:
 - (a) engagement letter;
 - (b) objectives and scope of the external audit work;
 - (c) materiality limit;
 - (d) areas of audit risk;
 - (e) staffing;
 - (f) timetable; and
 - (g) proposed fees;

2. annually, or as otherwise required by the Audit Committee, review a written report from the Auditor on the critical accounting policies of the Company;
3. review and, if determined to be satisfactory, pre-approve all non-audit services, including tax services, the Auditor is to perform, and it shall consider the impact the provision of such services could have on the independence of the external audit work. The Audit Committee may delegate this authority to grant pre-approvals to one or more designated members of the Audit Committee, provided that such delegates present their decisions to pre-approve services to the full Audit Committee at each of its scheduled meetings. The Audit Committee shall not permit the Auditor to perform any non-audit service prohibited by law applicable to the Company;
4. meet with the Auditor and management to discuss the Company's annual financial statements and the Auditor's report, the interim financial statements, and management's discussion and analysis relating to both the annual and interim financial statements. Meetings with the Auditor and management shall be held separately, periodically, as scheduled by the Audit Committee;
5. review and advise the Board with respect to the plan, conduct and reporting of the annual external audit, including but not limited to the following:
 - (a) any audit problems or difficulties encountered, and management's response thereto, and any restriction imposed by management during the annual audit;
 - (b) any significant accounting or financial reporting issue;
 - (c) the Auditor's evaluation of the Company's system of internal controls and related procedures and documentation;
 - (d) the post audit or management letter containing any of the Auditor's findings or recommendations, including management's response thereto and the subsequent follow-up to any identified control weaknesses; and
 - (e) any other matters that the Auditor brings to the attention of the Audit Committee;
6. prepare an Audit Committee report to be included in the Company's annual corporate governance disclosure; and
7. fix the remuneration of the Auditor.

C. INTERNAL AUDIT

The Audit Committee shall oversee the internal audit function of the Company and the relationship of the internal auditor with management. Periodically, the Audit Committee shall meet separately with each of the internal auditor and management. To assist the Board in fulfilling its oversight and monitoring obligations in this area, the Audit Committee shall:

1. review and consider the appropriateness of the internal audit function and organizational framework;
2. be involved in the appointment or removal of the internal auditor;
3. support the independence of the internal audit function and the internal auditor;
4. review and consider the appropriateness of the internal audit plan and resources; and
5. review the findings of the internal auditor and consider the appropriateness of follow-up plans.

D. INTERNAL FINANCIAL CONTROL AND INFORMATION SYSTEMS

The Audit Committee will review and obtain reasonable assurance that the internal financial control and information systems are operating effectively to produce accurate, appropriate and timely financial information. In this regard the Audit Committee will:

1. obtain reasonable assurance by discussions with and reports from management, the internal auditor and the Auditor, that:
 - (a) the information systems, security of information and recovery plans are adequate and reliable; and
 - (b) the internal control systems and procedures are properly designed and effectively implemented;
2. review the appointment of the Chief Financial Officer and adequacy of accounting and finance resources, as required; and
3. ensure that direct and open communication exists among the Audit Committee, the Auditor and the internal auditor.

E. INSURANCE

The Audit Committee shall review insurance coverage of significant business risks and uncertainties.

F. SUBSIDIARIES

The Audit Committee shall receive a report on the Company's material Subsidiaries, as requested from time to time, concerning any material non-routine structures e.g. special purpose entities, off balance sheet items or partnership arrangements.

G. INVESTIGATIONS AND ACCESS TO MANAGEMENT

The Audit Committee shall have the authority to direct and to supervise the investigation into any matter brought to its attention within the scope of its duties. It shall establish procedures for the receipt, retention and treatment of (i) complaints the Company may receive regarding accounting, internal accounting controls, or auditing matters, and (ii) confidential, anonymous submissions from Company employees expressing concern regarding questionable accounting or auditing matters.

The Audit Committee has the authority to engage independent counsel and other advisers having special competencies, as it determines necessary to carry out its duties. The Audit Committee shall determine the appropriate amount of funding the Company shall provide for compensation of any such advisors.

In carrying out its responsibilities, the Audit Committee shall have access to such members of the Company's management as appropriate, including the persons having responsibility for:

1. insurable risks, foreign currency and interest rate exposure and related derivatives;
2. tax exposures and related reserves;
3. systems security and system integrity recovery plans;
4. compliance with domestic and international regulatory requirements (such as the Corruption of Foreign Public Officials Act and Foreign Corrupt Practices Act) and material legal exposures;
5. plans and actions taken with respect to commodity price hedging;
6. financial accounting; and
7. internal audit.

The Audit Committee shall receive from management copies of any report of a material nature from regulators or government bodies which is relevant to the responsibilities of the Audit Committee set out in this mandate and of management's responses thereto.

H. GENERAL

The Audit Committee shall review corporate policies that are within the scope of the roles and responsibilities specified by these terms of reference prior to submission for approval by the Board; monitor compliance on a regular basis; and ensure these policies are periodically reviewed and kept current.

The Audit Committee shall perform such other duties as may be assigned to it by the Board from time to time or as may be required by applicable law and stock exchange requirements.

In respect of matters within its purview under this mandate and delegation, the Audit Committee shall assist the Board in its oversight of the Company's compliance with legal and regulatory requirements.

The Audit Committee shall report to the Board at each regularly scheduled Board meeting next succeeding any Committee meeting.

The Audit Committee shall evaluate its own performance annually.



**NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS
MANAGEMENT PROXY CIRCULAR**

May 3, 2005

T A L I S M A N
E N E R G Y

NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS
May 3, 2005

NOTICE IS HEREBY GIVEN that the annual and special meeting of the common shareholders (the "Meeting") of TALISMAN ENERGY INC. (the "Company") will be held in the Exhibition Hall, North Building of the Telus Convention Centre, 136 Eighth Avenue S.E., Calgary, Alberta, Canada, on Tuesday, May 3, 2005 at 10:30 a.m. (Mountain Daylight Time) for the following purposes:

1. to receive the annual report and the consolidated financial statements of the Company for the year ended December 31, 2004 together with the report of the auditor thereon;
2. to elect the directors for the ensuing year;
3. to appoint the auditor for the ensuing year;
4. to consider and, if thought appropriate, to pass, with or without variation, an ordinary resolution approving the continuation and amendment of the Company's shareholder rights plan, as described in the Company's management proxy circular accompanying this Notice of Meeting; and
5. to transact such further and other business as may properly come before the Meeting or any adjournment thereof.

Registered holders of common shares unable to attend the Meeting in person are requested to complete the enclosed form of proxy and return it in the envelope provided to the Company's transfer agent and registrar, Computershare Trust Company of Canada, 100 University Avenue, Toronto, Ontario, M5J 2Y1 no later than 10:30 a.m. (Eastern Daylight Time) on May 2, 2005, or one business day preceding any adjournment of the Meeting. Alternatively, telephone and Internet voting options are available. Please see the form of proxy for more details. Non-registered shareholders are advised to refer to the Company's management proxy circular and to the voting instruction form for instructions relevant to them.

Only registered holders of common shares of the Company at the close of business on March 18, 2005, or their duly appointed proxyholders, will be entitled to vote at the Meeting.

DATED at Calgary, Alberta this 14th day of March, 2005.

BY ORDER OF THE BOARD



M. Jacqueline Sheppard
Corporate Secretary

Full instructions explaining the process for a shareholder to attend the Meeting in person are set out in the management proxy circular accompanying this Notice of Meeting. Shareholders who have questions may call Georgeson Shareholder Communications Canada Inc. toll-free at 1-877-288-7978 for further information.

MANAGEMENT PROXY CIRCULAR

GENERAL PROXY INFORMATION

This management proxy circular (the "Circular") is furnished in connection with the solicitation of proxies by or on behalf of the management of TALISMAN ENERGY INC. (the "Company") for use at the annual and special meeting of common shareholders of the Company (the "Meeting") to be held in the **Exhibition Hall, North Building of the Telus Convention Centre, 136 Eighth Avenue S.E., Calgary, Alberta, Canada, on Tuesday, May 3, 2005 at 10:30 a.m. (Mountain Daylight Time)** and at any adjournment thereof, for the purposes set forth in the attached notice of Meeting ("Notice of Meeting"). Please read this Circular to obtain information about how shareholders may participate at the Meeting either in person or through the use of proxies.

Solicitation of Proxies

Proxies in the enclosed form are solicited by or on behalf of the management of the Company. Solicitation of proxies will be primarily by mail, but employees and agents of the Company may also solicit proxies by telephone. Brokers, nominees or other persons holding shares of the Company in their names for others will be reimbursed for their reasonable charges and expenses in forwarding proxies and proxy material to non-registered shareholders. The Company has retained an independent proxy solicitation agent, Georgeson Shareholder Communications Canada Inc., to assist in the solicitation of proxies for the Meeting, at a cost not to exceed \$25,000 (not including disbursements). The Company will bear the cost of all proxy solicitations on behalf of management of the Company.

Registered and Non-Registered Shareholders

Shareholders of the Company are either registered or non-registered. Only a relatively small number of shareholders are registered. Registered shareholders hold common shares of the Company ("Common Shares") in their own names because they specifically requested that their names be registered on the records of the Company or they purchased their Common Shares directly from the Company and not through an intermediary. (Intermediaries include, among others, banks, trust companies, securities dealers or brokers.) Most shareholders are non-registered because their Common Shares are registered in the name of either (a) an intermediary with whom the non-registered shareholder deals in respect of the Common Shares, or (b) a clearing agency (such as The Canadian Depository for Securities Limited) of which the intermediary is a participant.

Only registered shareholders or duly appointed proxyholders will be permitted to attend and vote at the Meeting. Non-registered shareholders may vote through a proxy or attend the Meeting to vote their own Common Shares only if, before the Meeting, they communicate instructions to the intermediary or clearing agency that holds their Common Shares. Instructions for voting through a proxy, appointing a proxyholder and attending the Meeting to vote are set out in this Circular. Shareholders who have questions may call Georgeson Shareholder Communications Canada Inc. toll-free at 1-877-288-7978 for further information.

A shareholder may receive multiple packages of Meeting materials if the shareholder holds Common Shares through more than one intermediary, or if the shareholder is both a registered shareholder and a non-registered shareholder for different shareholdings. Any such shareholder should repeat the steps to vote through a proxy, appoint a proxyholder or attend the Meeting, if desired, separately for each shareholding to ensure that all the shares from the various shareholdings are represented and voted at the Meeting.

Voting through a Proxy

Shareholders who are unable to be present at the Meeting may vote through the use of proxies. Shareholders should convey their voting instructions using one of the three voting methods available: (i) use of the voting instruction form or form of proxy to be returned by mail or delivery, (ii) use of the telephone voting procedure, or (iii) use of the Internet voting procedure.

By conveying your voting instructions in one of the three ways, you can participate in the Meeting through the person or persons named on the voting instruction form or form of proxy. Common Shares represented by a voting instruction form or a form of proxy will be voted or withheld from voting in accordance with your instructions including on any ballot that will be called for. **If you do not indicate a voting preference for an item of business presented, your Common Shares will be voted FOR the election of all individual directors named in this Circular, FOR the appointment of auditor and FOR the continuation and amendment of the Company's shareholder rights plan, all as more particularly described under the relevant sections of this Circular.**

To convey voting instructions through any of the three methods available, a shareholder must locate the voting instruction form or form of proxy, one of which is included with the Circular in the package of Meeting materials sent to each shareholder. Although there are limited exceptions, registered shareholders should receive a yellow form of proxy and non-registered shareholders should receive a white voting instruction form (this is a computer scanable document).

Mail

A registered shareholder who elects to use the paper voting procedure should complete and return the yellow form of proxy. If your yellow form of proxy contains a self-adhesive label containing a bar code and other information, follow the instructions to affix the label to the yellow form of proxy. Complete the remainder of the yellow form of proxy. Ensure that you date and sign the form at the bottom (if the yellow form of proxy is already signed, do not sign it again). Return your completed yellow form of proxy, in the envelope provided, to the Company's transfer agent and registrar, Computershare Trust Company of Canada ("Computershare"), 100 University Avenue, Toronto, Ontario M5J 2Y1 no later than 10:30 a.m. (Eastern Daylight Time) on May 2, 2005 or one business day preceding any adjournment of the Meeting.

A non-registered shareholder who elects to use the paper voting procedure should complete and return the white voting instruction form. Ensure that you date and sign the form at the bottom. Return the voting instruction form to the relevant intermediary in the envelope provided before the close of business on April 29, 2005 or the cut-off date shown on the voting instruction form.

Telephone or Internet

Shareholders may convey their voting instructions using a touch-tone telephone or the Internet. The relevant toll-free telephone number or website address is set out on the form of proxy or voting instruction form. Follow the instructions given over the telephone or through the Internet to cast your vote. When instructed to enter a control number or holder account number and proxy access number, consult your form of proxy or voting instruction form. Votes conveyed by telephone or the Internet must be received no later than the cut-off time given on the form of proxy or voting instruction form.

Appointing a Proxyholder

Shareholders unable to attend the Meeting in person may participate and vote at the Meeting through a proxyholder. The persons named as proxyholders to represent shareholders at the Meeting are D. D. Baldwin, Chairman of the Board and a director of the Company, and J. W. Buckee, President, Chief Executive Officer and a director of the Company. **A shareholder has the right to appoint a person or company other than those named to represent such shareholder at the Meeting. A non-registered shareholder who would like to attend the Meeting to vote must appoint himself or herself as proxyholder.** To appoint a person other than D. D. Baldwin or J. W. Buckee as proxyholder, strike out the names of D. D. Baldwin and J. W. Buckee on the form of proxy or voting instruction form and write the name of the person you would like to appoint as your proxyholder in the blank space provided. You should notify any person you appoint as your proxyholder. That person need not be a shareholder of the Company.

Non-registered shareholders appointing a proxyholder using a voting instruction form should fill in the rest of the form indicating a vote "for", "against", or "withhold", as the case may be, for each of the matters listed, sign and date the form and return it to the relevant intermediary or clearing agency in the envelope provided before the close of business on April 29, 2005 or the cut-off time given on the form. **No person will be admitted at the Meeting to vote by presenting a voting instruction form.**

Shareholders appointing a proxyholder using a form of proxy are encouraged to return the completed and signed form to Computershare Trust Company of Canada, 100 University Avenue, Toronto, Ontario M5J 2Y1, in the envelope provided by 10:30 a.m. (Eastern Daylight Time) on May 2, 2005 or one business day preceding any adjournment of the Meeting; however, proxyholders named on a signed form of proxy will be admitted at the Meeting to vote upon presentation of the form of proxy.

Alternatively, any shareholder may use the Internet to appoint a proxyholder. To use this option, access the website address printed on the form of proxy or voting instruction form and follow the instructions set out on the website. Refer to the control number or holder account number and proxy access number printed on the form of proxy or voting instruction form when required to enter these numbers.

Attending the Meeting to Vote

Only registered shareholders or duly appointed proxyholders will be permitted to attend and vote at the Meeting. Non-registered shareholders will not be permitted to attend the Meeting to vote by presenting their voting instruction forms at the door. In order for non-registered shareholders to attend the Meeting to vote, they must carefully follow the instructions provided under the heading "Appointing a Proxyholder" in this Circular to appoint themselves proxyholders before the Meeting in order to be admitted at the Meeting to vote.

Shareholders who have questions may call Georgeson Shareholder Communications Canada Inc. toll-free at 1-877-288-7978 for further information.

Discretionary Authority of Proxyholder

The enclosed form of proxy or voting instruction form confers discretionary authority on the proxyholder in respect of amendments or variations to matters identified in the Notice of Meeting and other matters that may properly come before the Meeting or any adjournment thereof. As of the date of this Circular, the management of the Company is not aware of any such amendments, variations or other matters to be presented

at the Meeting other than those identified in the Notice of Meeting; however, if any such matter is presented, the proxy will be voted in accordance with the best judgment of the proxyholder named in the form. Where a shareholder has not specifically appointed a person as proxyholder, a management nominee will be the proxyholder, and the proxy will be voted in accordance with the best judgment of the management nominee.

Revocation of Proxies or Voting Instructions

Shareholders may revoke their proxies or voting instructions as follows.

Proxies of registered shareholders submitted by mail, telephone or through the Internet using a form of proxy may be revoked by submitting a new proxy to Computershare before 10:30 a.m. (Eastern Daylight Time) on May 2, 2005, or one business day before any adjournment of the Meeting. Alternatively, a registered shareholder who wishes to revoke a proxy may do so by depositing an instrument in writing addressed to the attention of the Corporate Secretary and executed by the shareholder or by the shareholder's attorney authorized in writing. Such an instrument must be deposited at the registered office of the Company, located at Suite 3400, 888 Third Street S.W., Calgary, Alberta, T2P 5C5, at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used. On the day of the Meeting or any adjournment thereof, a registered shareholder may revoke a proxy by depositing such an instrument in writing with the Chairman of the Meeting; however, it will not be effective with respect to any matter on which a vote has already been cast. In addition, a proxy may be revoked by any other manner permitted by law.

For beneficial shareholders, voting instructions submitted by mail, telephone or through the Internet using a voting instruction form will be revoked if the relevant intermediary receives new voting instructions before the close of business on April 29, 2005, or two business days before any adjournment of the Meeting.

Interest of Certain Persons or Companies in Matters to be Acted Upon

The Company is not aware of any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, of any director or officer or their associates or affiliates, in any matter to be acted upon at the Meeting other than as follows:

The directors and all of the officers of the Company own Common Shares of the Company. As such, their Common Shares will be impacted by the shareholder rights plan described in this Circular, in the identical manner as other shareholders of the Company.

Voting Shares and Principal Holders Thereof

There were 371,420,490 Common Shares of the Company outstanding at March 1, 2005. Each Common Share is entitled to one vote on all matters to be voted upon at the Meeting.

To the knowledge of the directors or officers of the Company, there is no single shareholder who beneficially owns, directly or indirectly, or exercises control or direction over Common Shares carrying 10% or more of the voting rights attached to the Common Shares. Each of The Canadian Depository for Securities Limited and CEDE & Co. hold in excess of 10% of the Common Shares for the benefit of their respective participants.

Record Date

March 18, 2005 has been set as the record date for the purpose of determining the shareholders entitled to vote in respect of the matters to be voted upon at the Meeting, or any adjournment thereof.

BUSINESS OF THE MEETING

Election of Directors

The Board of Directors is elected annually and consists of such number as fixed from time to time by resolution of the directors, such number being not less than four and not more than twenty. The number of directors to be elected at the Meeting is currently fixed at nine. Each elected director will hold office until the next annual meeting or until his or her successor is duly elected or appointed.

Management of the Company proposes to nominate for election as directors at the Meeting the persons listed in the following table. All proposed nominees have consented to be named in this Circular and to serve as directors if elected. Management has no reason to believe that any of the nominees will be unable to serve as directors but, should any nominee become unable to do so for any reason prior to the Meeting, the persons named in the enclosed form of proxy or voting instruction form, unless directed to withhold from voting, reserve the right to vote for other nominees at their discretion. Shareholders should note that the form of proxy or voting instruction form provides for voting for individual directors as opposed to voting for directors as a slate. The Board of Directors approved the new format following a consideration of best practices in corporate governance and discussions with various third parties and shareholder interest groups including the Carpenters' Local 27 Pension Trust Fund.

The following table sets forth information with respect to each of the nominees for election as a director, including all officer positions currently held with the Company and principal occupation or employment for the past five years or more. In addition, the following table lists other issuers with whom each nominee is currently serving as a director. Each of the nominees has served as a director of the Company since the year he or she first became a director.

The Board of Directors has the following committees: the Audit Committee, the Executive Committee, the Governance and Nominating Committee, the Management Succession and Compensation Committee, the Pension Funds Committee and the Reserves Committee. For a description of the committees of the Board of Directors, see the Statement of Corporate Governance Practices set out in Schedule A to this Circular. Membership on the Board committees is also noted in the table below.

Name, Province or State and Country of Residence	Year First Became Director of the Company	Present Principal Occupation or Employment (including all officer positions currently held with the Company), Principal Occupation or Employment for the Past Five Years or More, and Other Current Directorships
Douglas D. Baldwin ^{2, 3, 4, 6} Alberta, Canada	2001	Chairman of the Board of the Company; director of various corporations; from 1999 to 2001, President and Chief Executive Officer of TransCanada PipeLines Limited (pipeline and power company); from 1992 to 1998, Senior Vice-President and Director of Imperial Oil Limited (natural resource company); from 1988 to 1992, President and Chief Executive Officer, Esso Resources Canada Limited (natural resource company). Other current directorships ⁷ : TransCanada Corporation, TransCanada PipeLines Limited, UTS Energy Corporation, Citadel Group of Funds, and Resolute Energy Inc.
James W. Buckee ^{2, 5} Alberta, Canada	1992	President and Chief Executive Officer of Talisman Energy Inc.; prior to May 1993, President and Chief Operating Officer of the Company; prior to August 1991, Manager, Planning of BP Exploration Company Ltd. (natural resource company). Other current directorships ⁷ : None.
Kevin S. Dunne ^{3, 5, 6} Tortola, British Virgin Islands	2003	Director of the Company; until March 2003, director of Talisman Energy Sweden AB (a wholly owned subsidiary of the Company); from 1994 until 2001, held various international senior and executive management positions with BP plc (international integrated oil and gas company) including General Manager, Abu Dhabi Company for Onshore Oil Operations (ADCO), a BP joint venture; 1991 to 1994, Corporate Associate President, BP Indonesia; and 1990 to 1991, Corporate Head of Strategy for the BP Group based in London. Other current directorships ⁷ : None.
Al L. Flood, C.M. ^{1, 4} Ontario, Canada	2000	Director of various corporations; from June 1999 to March 2000, Chairman of the Executive Committee of Canadian Imperial Bank of Commerce ("CIBC") (a Canadian chartered bank); prior to June 1999, Chairman and Chief Executive Officer of CIBC and held various positions in the domestic and international operations of CIBC. Other current directorships ⁷ : Canadian Imperial Bank of Commerce and Noranda Inc.

Name, Province or State and Country of Residence	Year First Became Director of the Company	Present Principal Occupation or Employment (including all officer positions currently held with the Company), Principal Occupation or Employment for the Past Five Years or More, and Other Current Directorships
Dale G. Parker ^{1, 5} British Columbia, Canada	1993	Director of various corporations and public administration and financial institution advisor; prior to January 1998, President and Chief Executive Officer of Workers' Compensation Board of British Columbia; prior to November 1994, President of White Spot Limited (food services company) and Executive Vice-President of Shato Holdings Ltd. (food processing and services and real estate company); prior to November 1993, Executive Vice-President and Chief Financial Officer of Shato Holdings Ltd.; prior to November 1992, Chairman and Chief Executive Officer of British Columbia Financial Institutions Commission (regulator of financial institutions). Other current directorships ⁷ : None.
Lawrence G. Tapp ^{3, 4} British Columbia, Canada	2001	Chairman of ATS Automation Tooling Systems Inc. (industrial automation company); director of various corporations; from 1995 to 2003, Dean of the Richard Ivey School of Business of the University of Western Ontario; from 1992 to 1995, Executive in Residence of the Faculty of Management and Adjunct Professor, University of Toronto; from 1985 to 1992, Vice Chairman, President and Chief Executive Officer of Lawson Mardon Group Limited (packaging conglomerate). Other current directorships ⁷ : ATS Automation Tooling Systems Inc., Call-Net Enterprises Inc., Wecast Industries Inc., CCL Industries Inc. and Mainstreet Equity Corp.
Stella M. Thompson ^{2, 4, 5} Alberta, Canada	1995	Principal of Governance West Inc. (corporate governance consulting company); President of Stellar Energy Ltd. (energy and management consulting company); director of various corporations; prior to June 1991, Vice-President, Planning, Business Information & Systems of Petro-Canada Products (petroleum refining and marketing company). Other current directorships ⁷ : None.
Robert G. Welty ^{1, 3} Alberta, Canada	2003	Chairman, Chief Executive Officer and Director of Sterling Resources Ltd. (oil and gas exploration and development company) since 1998; 1996 to 1997, President, Escondido Resources (International) Ltd. (oil and gas exploration company); 1994 to 1995, President and Chief Executive Officer of Canadian Fracmaster Ltd. (oil field service company); 1992 to 1994, President and Chief Executive Officer of Bow Valley Energy Inc. (oil and gas exploration and development company); 1976 to 1988, President and Chief Executive Officer of Asameria Inc. (oil and gas exploration and development company). Other current directorships ⁷ : Sterling Resources Ltd. and Pan-Ocean Energy Corporation Limited.

Name, Province or State and Country of Residence	Year First Became Director of the Company	Present Principal Occupation or Employment (including all officer positions currently held with the Company), Principal Occupation or Employment for the Past Five Years or More, and Other Current Directorships
Charles W. Wilson ^{1, 2, 6} Colorado, United States	2002	Director of various corporations; from 1993 to 1999, President and Chief Executive Officer of Shell Canada (integrated oil and gas company); from 1988 to 1993, Executive Vice-President US Downstream Oil and Chemical of Shell Oil US (integrated oil and gas company); prior to 1988, Vice-President US Refining and Marketing of Shell Oil US and held various positions in the domestic and international natural resource operations of Shell. Other current directorships ⁷ : ATCO Ltd., Akita Drilling Ltd., Big Rock Brewery Ltd. and Canadian Utilities Limited.

Notes:

- 1 Member of the Audit Committee
- 2 Member of the Executive Committee
- 3 Member of the Governance and Nominating Committee
- 4 Member of the Management Succession and Compensation Committee
- 5 Member of the Pension Funds Committee
- 6 Member of the Reserves Committee
- 7 Refers only to issuers that are reporting issuers or the equivalent in a foreign jurisdiction

Information is given below with respect to the direct and indirect beneficial ownership of, or control or direction over, Common Shares of the Company by: (1) each of the nominees for election as director; and (2) by all nominees for election as director and all executive officers appointed by the Board of Directors, as a group. Effective January 1, 2001, the Company adopted a Deferred Share Unit Plan to support the alignment of director and shareholder interests. Information is given below with respect to the deferred share unit holdings of certain directors. More information about the Deferred Share Unit Plan is provided in the section of this Circular under the heading "Remuneration of Directors" and in Schedule A under "Director Share Ownership Policy".

Name of Beneficial Owner	Common Shares Beneficially Owned ¹	Deferred Share Units ⁴
Douglas D. Baldwin	12,500	13,686
James W. Buckee	173,493	N/A
Kevin S. Dunne	3,000	1,701
Al L. Flood	15,000	12,393
Dale G. Parker	15,000	3,508
Lawrence G. Tapp	8,822	1,388
Stella M. Thompson	7,500	4,907
Robert G. Welty	7,500	3,201
Charles W. Wilson	3,000	6,638
Subtotal for all nominees for election as director	245,815	47,422³
Total for all nominees for election as director and executive officers appointed by the Board of Directors	391,395²	47,422

Notes:

- 1 The information regarding Common Shares beneficially owned, directly or indirectly, over which control or direction is exercised, not being within the knowledge of the Company, has been supplied by all nominees for director individually. The information is as of March 1, 2005.
- 2 Represents 0.1% of Common Shares of the Company outstanding at March 1, 2005.
- 3 Deferred share units are held by non-employee directors only.
- 4 In 2004, the Board of Directors approved a new compensation structure for non-executive directors, which requires non-executive directors to allocate at least 40% of their annual Board retainer towards deferred share units. The Company does not currently intend to grant director stock options to non-executive directors.

Dale Parker was a director of Royal Oak Mines Inc., a publicly traded North American gold mining corporation, and he was a director of Agro Pacific Industries Ltd., a publicly traded agricultural corporation, when each corporation instituted proceedings under the *Companies' Creditors Arrangement Act* (Canada). In 2003, Stella Thompson was a director of Laidlaw Inc., a public holding company, when it obtained an order in the United States Bankruptcy Court for the Western District of New York confirming its plan of reorganization and an order from the Ontario Superior Court of Justice under the *Companies' Creditors Arrangement Act* (Canada) recognizing and implementing the plan in Canada.

Appointment of Auditor

Shareholders will be asked at the Meeting to pass a resolution reappointing Ernst & Young LLP, Chartered Accountants, as auditor of the Company, to hold office until the next annual meeting of shareholders. To be effective, the resolution must be passed by a majority of the votes cast thereon by the shareholders at the Meeting. Ernst & Young LLP or its predecessor has been auditor of the Company or its predecessor since 1982.

Shareholder Rights Plan

Background

The Company instituted a shareholder rights plan (the "Rights Plan") in 1999, which was approved by shareholders at the Company's 1999 annual meeting. In 2002, shareholders approved various amendments and a restatement of the Rights Plan. Also in 2002, shareholders approved the continuation of the Rights Plan for another three years. The Rights Plan has the terms set out in the shareholder rights plan agreement (the "Rights Agreement") dated as of March 3, 1999, as amended and restated as of May 1, 2002, between the Company and Computershare Trust Company of Canada as rights agent.

The primary objective of the Rights Plan is to provide the Board of Directors with sufficient time to consider and, if appropriate, to explore and develop alternatives for maximizing shareholder value if a take-over bid is made for the Company, and to provide every shareholder with an equal opportunity to participate in such a bid. The Rights Plan encourages a potential acquirer of the Company to proceed either by way of a "Permitted Bid", which requires the take-over bid to satisfy certain minimum standards designed to promote fairness, or with the concurrence of the Board of Directors.

Under provincial securities legislation, a take-over bid generally means an offer to acquire voting or equity shares of a person or persons, where the shares subject to the offer to acquire, together with shares already owned by the bidder and certain related parties aggregate 20% or more of the outstanding shares of a company. While the Rights Plan is intended to regulate certain aspects of take-over bids for the Company, it is not intended to deter a *bona fide* attempt to acquire control of the Company if the offer is made fairly. The Rights Plan does not affect the duty of the Board of Directors to give due and proper consideration to any offer that is made and to act honestly, in good faith and in the best interests of the Company and its shareholders.

The Rights Plan utilizes the mechanism of the Permitted Bid to ensure that a person seeking control of the Company allows shareholders and the Board of Directors sufficient time to evaluate the bid. The purpose of the Permitted Bid feature is to allow a potential bidder to avoid the dilutive features of the Rights Plan by making a bid in conformity with the conditions specified in the Permitted Bid provisions.

If a person makes a takeover bid that is a Permitted Bid, the Rights Plan will not affect the transaction in any respect. Otherwise, a person will likely find it impractical to acquire 20% or more of the outstanding Common Shares because the Rights Plan will substantially dilute the holdings of a person or group that seeks to acquire such an interest other than by means of a Permitted Bid or on terms approved by the Board of Directors. When a person or group or their transferees become an Acquiring Person (as defined in the Rights Plan), the Rights beneficially owned by those persons become void thereby permitting their holdings to be diluted. The possibility of such dilution is intended to encourage such persons to make a Permitted Bid or to seek to negotiate with the Board of Directors the terms of an offer which is fair to all shareholders.

A summary of the Rights Plan is set out in Schedule B to this Circular. Shareholders or any other interested party may obtain a copy of the Rights Agreement by accessing the Company's publicly filed documents, including the Rights Agreement, on SEDAR at www.sedar.com.

Proposed Amendments

Pursuant to the terms of the Rights Agreement, the Rights Plan will expire upon the termination of the Meeting unless the Rights Agreement is amended to extend its expiry time. The Board of Directors has determined it appropriate and in the best interests of the shareholders that the Rights Agreement be amended to continue the Rights Plan for another three years. Accordingly, it is proposed that the Rights Plan be amended to extend the term of the Rights Plan until the termination of the annual meeting of shareholders of the Company in 2008.

It is also proposed that the Rights Agreement be amended to change the "Exercise Price" of the Rights. Under the Rights Agreement, the Exercise Price affects the amount of dilution that would occur in the event of a Flip-in Event. Shareholder rights plans are designed so that the relevant exercise price exceeds the market trading price of the relevant shares. When the Rights Plan was originally adopted by the Board of Directors, the Exercise Price was set at \$200. Since that time, the market price of the Common Shares of the Company has increased substantially. The subdivision of the Common Shares in 2004 resulted in the Exercise Price being adjusted so that it is now \$66.67. In light of the potential continued growth in the market trading price of the Company's Common Shares, it is proposed that the Rights Agreement be amended so that the Exercise Price is returned to \$200 (on a post split basis). This will result in the ratio of the Exercise Price to the current trading price being more comparable to that which existed when the Rights Plan was originally adopted and to the ratios for rights plans of other companies.

The text of the resolution to be considered at the Meeting is set forth below under "Proposed Resolution". In addition to approving the foregoing amendments, the resolution also approves any other amendments to the Rights Agreement to respond to any requirements which may be raised by any stock exchange or professional commentators on shareholder rights plans in order to conform the Rights Agreement to versions of shareholder rights plans currently prevalent for reporting issuers in Canada. The Company believes that the Rights Agreement is consistent with the form of rights plans now prevalent for public corporations in Canada so does not anticipate that any such further amendments will be required, but the resolution provides the Company with the necessary authority to make any such amendments should the need arise.

The Board's authorization of the amendment of the Rights Plan was not in response to or in anticipation of any pending or threatened take-over bid.

Proposed Resolution

At the Meeting, the following ordinary resolution will be placed before shareholders for approval:

BE IT RESOLVED that:

1. The term of the Shareholder Rights Plan Agreement dated as of March 3, 1999 and amended and restated as of May 1, 2002 between the Company and Computershare Trust Company of Canada (the "Rights Agreement") be extended to the termination of the annual meeting of shareholders of the Company in the year 2008 and the Rights Agreement be amended as described in the Management Proxy Circular of the Company dated March 14, 2005; and
2. The making on or prior to the date hereof of any other amendments to the Rights Agreement as the Company may consider necessary or advisable to satisfy the requirements of any stock exchange or professional commentators on shareholder rights plans in order to conform the Rights Agreement to versions of shareholder rights plans currently prevalent for reporting issuers in Canada is hereby approved.

Under the Rights Agreement, the resolution requires the approval of a simple majority of the votes cast at the Meeting by Independent Shareholders. In effect, all shareholders will be considered Independent Shareholders provided they are not, at the relevant time, an Acquiring Person (as described in Schedule B to this Circular) or making a take-over bid for the Company. The Company is not aware of any shareholder who will be ineligible to vote on such resolution at the Meeting.

The Board of Directors has determined that the proposed amendments to the Rights Agreement are in the best interests of the Company and its shareholders. **The Board of Directors unanimously recommends that shareholders vote in favour of the resolution.**

The persons designated in the enclosed form of proxy, unless instructed otherwise, intend to vote in favour of the resolution relating to the Rights Plan.

INFORMATION RELATING TO THE COMPANY

Compensation of Directors and Executive Officers

Summary of Executive Compensation

Aggregate Compensation

During the financial year ended December 31, 2004, there were eight Executive Officers of the Company who received, in aggregate, cash remuneration of \$7,681,846. Cash payments made through the Employee Stock Option Plan are reported in Table 3. For this purpose, "Executive Officers" means the President and Chief Executive Officer, and Executive Vice-Presidents in charge of a principal business unit or function of the Company or its subsidiaries. The aggregate value of all other remuneration furnished to the eight Executive Officers during the financial year was \$199,634 comprised of the value of Company-supplied vehicles and parking, as well as club memberships, financial counseling, certain taxable benefits, service awards, and provincial health care premiums paid by the Company on behalf of the Executive Officers.

Individual Compensation

The following table sets forth all annual and long-term compensation of the individuals who were, at December 31, 2004, the Chief Executive Officer, the Executive Vice-President, Finance and Chief Financial Officer, and the next three most highly compensated Executive Officers (collectively the "Named Executive Officers"), for the 2004, 2003, and 2002 financial years of the Company.

Table 1: Summary Compensation

Name and Principal Position	Year	Annual Compensation			Long-term Compensation Awards	
		Salary (\$)	Bonus/ Variable Pay ¹ (\$)	Other Annual Compensation ² (\$)	Common Shares Under Option Grants ³ (#)	All Other Compensation ⁴ (\$)
President and Chief Executive Officer	2004	1,047,875	1,886,175	62,762	330,000	123,484
James W. Buckee	2003	997,500	1,468,077 ⁶	—	300,000	86,603
Michael D. McDonald	2002	945,500	681,000	—	330,000	78,355
Executive Vice-President, Finance and Chief Financial Officer	2004	418,900	452,740	—	120,000	42,897
T. Nigel D. Hares	2003	393,750	427,368 ^{5, 6}	—	105,000	31,614
Michael D. McDonald	2002	366,800	185,328 ⁵	—	120,000	29,369
Executive Vice-President, Frontier and International Operations	2004	512,425	569,120	—	120,000	49,937
T. Nigel D. Hares	2003	470,000	482,748 ^{5, 6}	—	105,000	36,927
M. Jacqueline Sheppard	2002	449,600	215,328 ⁵	—	120,000	35,394
Executive Vice-President, Corporate and Legal, and Corporate Secretary	2004	484,925	538,595	—	120,000	50,197
M. Jacqueline Sheppard	2003	435,000	511,827 ^{5, 6}	—	105,000	34,427
Robert M. Redgate	2002	410,975	200,328 ⁵	—	120,000	33,683
Executive Vice-President, Corporate Services	2004	412,925	445,959	—	120,000	41,428
Robert M. Redgate	2003	387,750	403,797 ⁶	—	105,000	30,814
Robert M. Redgate	2002	371,175	188,100	—	120,000	30,712

Notes:

- 1 Amounts listed are variable pay unless otherwise noted. Variable pay for 2004 is payable on April 1, 2005.
- 2 The perquisites and other personal benefits do not exceed the lesser of \$50,000 and 10 percent of the total annual salary and bonus of the Named Executive Officers, other than James W. Buckee.
- 3 Reflects a three-for-one division or "share split" of issued and outstanding common shares that occurred on May 4, 2004.
- 4 Includes the value of the Talisman Savings Plan contributions and life insurance premiums paid by Talisman on behalf of the Named Executive Officers.
- 5 Includes a non-pensionable Holiday bonus of \$327.86 in 2002, \$327.87 in 2003, and \$327.87 in 2004.
- 6 Includes a non-pensionable one-time discretionary bonus, of \$95,517 for James W. Buckee, \$37,227 for Michael D. McDonald , \$45,320 for T. Nigel D. Hares, \$41,699 for M. Jacqueline Sheppard, and \$37,373 for Robert M. Redgate

Stock Option Program

The following table sets forth stock options granted under the Company's Employee Stock Option Plan (the "ESOP") during the financial year ended December 31, 2004 to each of the Named Executive Officers. Further information as to the operation of the ESOP is set forth under the Management Succession and Compensation Committee Report and the section entitled "Securities Authorized for Issuance Under Equity Compensation Plans" below.

Table 2: Option/SAR Grants During 2004

	Common Shares Under Options Granted (#) ^{1, 2}	% of Total Options Granted to Employees in 2004	Exercise Price (\$/Common Share)	Market Value of Common Shares on the Date of Grant ³ (\$/Common Share)	Expiration Date
James W. Buckee	330,000	8.93%	\$25.6833	\$25.6833	March 11, 2014
Michael D. McDonald	120,000	3.25%	\$25.6833	\$25.6833	March 11, 2014
T. Nigel D. Hares	120,000	3.25%	\$25.6833	\$25.6833	March 11, 2014
M. Jacqueline Sheppard	120,000	3.25%	\$25.6833	\$25.6833	March 11, 2014
Robert M. Redgate	120,000	3.25%	\$25.6833	\$25.6833	March 11, 2014

Notes:

- 1 The options were granted on March 12, 2004 and vest three years from the date of grant. The options include the cash payment feature (tandem Stock Appreciation Right (SAR)), described under the Compensation Program Design section.
- 2 Reflects a three-for-one division or "share split" of issued and outstanding common shares that occurred on May 4, 2004.
- 3 Determined by calculating the mean of the high and low reported prices at which Common Shares were traded on the Toronto Stock Exchange (the "TSX") on the day prior to the date of grant.

At December 31, 2004, 4,969,050 options to acquire Common Shares of the Company were held by individuals who were Executive Officers of the Company during 2004. Including the options described in Table 3, options to acquire a total of 1,170,000 Common Shares were granted during 2004 to eight Executive Officers at a weighted average price of \$25.6833.

The following table sets out the details of options exercised and the aggregate value realized by the particular Named Executive Officer during 2004 and, in addition, sets out the aggregate number of outstanding exercisable options owned by each of the Named Executive Officers, categorized as being either exercisable or unexercisable as at December 31, 2004, together with the value of such options at the end of the year.

Table 3: Aggregated Option/SAR Exercises During 2004 and Option Values

Name	Common Shares Acquired/ Options Surrendered on Exercise ¹	Aggregate Value Realized ² (\$)	Unexercised Options at December 31, 2004 (#)		Value of Unexercised In-the-Money Options at December 31, 2004 ³ (\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
James W. Buckee	405,000	6,907,375	813,000	960,000	14,494,700	9,519,250
Michael D. McDonald	30,000	255,500	60,000	345,000	770,000	3,410,225
T. Nigel D. Hares	60,000	770,800	370,950	345,000	6,998,561	3,410,225
M. Jacqueline Sheppard	90,000	1,224,800	340,950	345,000	6,437,061	3,410,225
Robert M. Redgate	210,000	3,979,600	90,000	345,000	1,155,000	3,410,225

Notes:

1 Represents the number of shares acquired on exercise, or the number of options surrendered for cancellation as a result of electing to receive the equivalent value as a cash payment.

2 Calculated by subtracting the exercise price of the option from the market price obtained per option exercised, or surrendered for cash payment, on the date of the exercise, and by multiplying that amount by the number of Common Shares under options exercised or surrendered.

3 Calculated by subtracting from the closing price per share of the Company's Common Shares on the TSX on December 31, 2004, the exercise price of the option and by multiplying that amount by the number of Common Shares under options owned. The closing trading price of the Company's Common Shares on the TSX on December 31, 2004 was \$32.35.

Defined Benefit Pension Plan

The Company provides all of the Named Executive Officers with retirement benefits through two plans, both of which are non-contributory defined benefits plans:

- a registered defined benefit plan called the Supplementary Pension Plan for Executives of Talisman (the "Supplementary Pension Plan"), and
- a special pension agreement (the "Special Pension Agreement") funded through a Retirement Compensation Arrangement. The Special Pension Agreement is a non-registered plan which provides pension payments that would otherwise be payable under the Supplementary Pension Plan but which exceed the prescribed maximum allowable under the Income Tax Act.

In addition to the Named Executive Officers listed in Table 1, three other Executive Officers participated in the Supplementary Pension Plan and Special Pension Agreement in 2004.

The Supplementary Pension Plan and Special Pension Agreement are non-contributory, defined benefit plans which provide for an annual accrual of 2% of the total of Best Average Earnings and Final Average Award. "Best Average Earnings" means the average of the best three years' compensation (actual base pay for the three year period prior to January 1, 2005). "Final Average Award" means the average of the variable pay awarded during the four consecutive years prior to December 31, 2004.

Table 4 shows the estimated annual pension payments for participants in both the Supplementary Pension Plan and Special Pension Agreement. Table 5 shows the portion of the total estimated annual pension payments that are provided through the Supplementary Pension Plan.

Table 4: Annual Pension Payments (\$) to Participants in both the Supplementary Pension Plan and the Special Pension Agreement

Remuneration ¹	Years of Service						
	15	20	25	30	35	40	45
350,000	105,000	140,000	175,000	210,000	245,000	280,000	315,000
450,000	135,000	180,000	225,000	270,000	315,000	360,000	405,000
550,000	165,000	220,000	275,000	330,000	385,000	440,000	495,000
650,000	195,000	260,000	325,000	390,000	455,000	520,000	585,000
750,000	225,000	300,000	375,000	450,000	525,000	600,000	675,000
850,000	255,000	340,000	425,000	510,000	595,000	680,000	765,000
950,000	285,000	380,000	475,000	570,000	665,000	760,000	855,000
1,050,000	315,000	420,000	525,000	630,000	735,000	840,000	945,000
1,150,000	345,000	460,000	575,000	690,000	805,000	920,000	1,035,000
1,250,000	375,000	500,000	625,000	750,000	875,000	1,000,000	1,125,000
1,350,000	405,000	540,000	675,000	810,000	945,000	1,080,000	1,215,000
1,450,000	435,000	580,000	725,000	870,000	1,015,000	1,160,000	1,305,000
1,550,000	465,000	620,000	775,000	930,000	1,085,000	1,240,000	1,395,000
1,650,000	495,000	660,000	825,000	990,000	1,155,000	1,320,000	1,485,000
1,750,000	525,000	700,000	875,000	1,050,000	1,225,000	1,400,000	1,575,000
1,850,000	555,000	740,000	925,000	1,110,000	1,295,000	1,480,000	1,665,000
1,950,000	585,000	780,000	975,000	1,170,000	1,365,000	1,560,000	1,755,000
2,050,000	615,000	820,000	1,025,000	1,230,000	1,435,000	1,640,000	1,845,000
2,150,000	645,000	860,000	1,075,000	1,290,000	1,505,000	1,720,000	1,935,000
2,250,000	675,000	900,000	1,125,000	1,350,000	1,575,000	1,800,000	2,025,000

Note:

1 Includes Best Average Earnings plus Final Average Award. Remuneration is in \$100,000 increments versus \$50,000 increments in previous years.

Years of service credited in the Supplementary Pension Plan and Special Pension Agreement where applicable, as at December 31, 2004, are as follows: James W. Buckee – 27.58; Michael D. McDonald – 7.00; T. Nigel D. Hares – 10.33; M. Jacqueline Sheppard – 11.33; and Robert M. Redgate – 26.50. Years of service credited on normal retirement at age 65 would be as follows: James W. Buckee – 33.92; Michael D. McDonald – 18.75; T. Nigel D. Hares – 21.33; M. Jacqueline Sheppard – 27.42; and Robert M. Redgate – 41.00.

James W. Buckee's pension payable from the Supplementary Pension Plan and Special Pension Agreement will be reduced by the pension formula applicable to and an amount payable by a previous employer for the period May 1977 to June 1992. Michael D. McDonald has been granted a pension enhancement recognizing the difference between employee and Supplemental Pension Plan benefits for the period prior to his enrollment in the Supplemental Pension Plan in January 1998. Pensions payable are in the form of a life annuity, with a 60% survivor benefit provided to the surviving spouse in the event of death of the Named Executive Officer. The benefits listed above are not subject to any offsets such as Canada Pension Plan or Old Age Security.

In 2004, Talisman changed the pension accrual rate of the Special Pension Agreement to provide greater flexibility in recognizing and recruiting executives with senior industry experience. The formula will now provide a pension accrual from the date of participation in the Executive Pension Plan (the "Executive Plan") at a rate of 4% per year for all credited service to the earlier of seven years of participation in the Executive Plan or 14 years of Talisman service. For credited service after the earlier of seven years in the Executive Plan or 14 years of Talisman service, pension is accrued at a rate of 2% per year. This change is retroactive to August 1, 1993 and, of the Named Executive Officers, affects M. Jacqueline Sheppard (additional 2% for seven years), and T. Nigel D. Hares (additional 2% for seven years).

Table 5: Annual Pension Payments to Participants from the Supplementary Pension Plan

Remuneration ¹	Years of Service						
	15	20	25	30	35	40	45
\$350,000 - \$2,250,000	\$27,495	\$36,660	\$45,825	\$54,990	\$64,155	\$73,320	\$82,485

Note:

1 Includes Best Average Earnings plus Final Average Award.

Employment Contracts and Termination of Employment Arrangements

At December 31, 2004, the Company had employment contracts in place for all Executive Vice-Presidents of the Company. The contracts provide for the payment of two years' compensation (including base salary plus target variable pay, plus benefits) in the event of a change in control of the Company. An employment contract with the President and Chief Executive Officer provides for two and one half years' compensation (including base salary plus target variable pay, plus benefits) in the event of a change in control of the Company.

The employment contract also allows for the full vesting of all unvested options for all optionees in the event of a change in control.

Composition and Role of the Management Succession and Compensation Committee

The Company's executive compensation program is administered by the Management Succession and Compensation Committee (the "Compensation Committee") of the Board of Directors. The Compensation Committee has, as part of its mandate, responsibility for the remuneration of the Executive Officers of the Company. The Compensation Committee also evaluates the performance of the Company's Executive Officers and reviews the design and competitiveness of the Company's incentive compensation programs. For the year 2004, the members of the Compensation Committee were: Douglas D. Baldwin, Al L. Flood, Lawrence G. Tapp and Stella M. Thompson. None of the members of the Compensation Committee is, or has ever been, an officer or an employee of the Company or any of its subsidiaries. The Compensation Committee meets at least twice annually or more often as needed. The Compensation Committee met five times in 2004.

Management Succession and Compensation Committee Report

Introduction and Objectives

The compensation philosophy of the Company is to reward employees, including the Chief Executive Officer and all Executive Officers, commensurate with personal achievements and the success of the Company. In doing so, all salaried employees place an element of compensation at risk. This provides the Company with flexibility and the individual with incentive to outperform expectations. The objectives of the compensation program are to attract, retain and motivate high-quality staff and to provide a sense of proprietorship.

Compensation Program Design

Total compensation for all salaried staff including the Chief Executive Officer and all Executive Officers consists of four elements: base pay, variable pay (both of which are paid in cash), long-term incentives and benefits. Variable pay is an integral element of compensation necessary to keep an individual's total compensation at a competitive level. The levels of variable pay (as a percentage of actual base earnings) are as follows:

Position	2004 Variable Pay Target	2004 Variable Pay Range
President and Chief Executive Officer	100%	0-200%
Other Executive Officers	60%	0-120%

The combination of base pay and variable pay targets is referred to as "target total cash compensation" and is the basis on which market competitiveness is evaluated. For 2004, target total cash compensation was aimed at the top quartile of a comparable group of select senior oil and gas producers.

The compensation system is designed to ensure that total cash compensation received by the Chief Executive Officer and Executive Officers, as with all salaried staff, will be significantly higher than comparable positions in comparable companies when the Company performs well, and significantly lower than the market total cash compensation if the Company under-performs. The weighting of corporate financial and operational objectives versus individual leadership and strategic objectives in determining variable pay is split 70/30 for the Chief Executive Officer and 50/50 for the Executive Officers. Corporate objectives relate to factors including, but not limited to, cash flow per share, income, reserves, production volumes, capital expenditures, per barrel of oil equivalent costs (finding and development, operating and general and administrative), share price appreciation relative to select senior oil and gas producers, as well as health, safety and environmental performance. Measurable and defined objectives are set annually to address these standards and other strategic initiatives. The Compensation Committee also applies a subjective analysis of strategic leadership issues in determining final total cash compensation. Variable pay owing in respect of the current year is paid in a lump sum in April of the following year after a full assessment of individual and corporate results.

The long-term incentive program is comprised of stock options granted annually by the Compensation Committee to the Named Executive Officers as shown in Tables 2 and 3 and other employees. The program only has value to the extent that additional shareholder value is created over time. Stock options are viewed as an important aspect of total compensation for senior staff, serving to align the interest of executives with those of the shareholders. Option grants increase with the employee's level in the Company.

The Company amended all outstanding stock options in 2003 to include a cash payment feature (tandem Stock Appreciation Right (SAR)). Specifically, the cash payment feature provides the optionholder the right to surrender the exercisable option for cancellation in return for a cash payment from the Company. The cash payment is based on the number of options cancelled, multiplied by the amount by which the market price of the Common Shares at the time of surrender exceeds the strike price of the option. The inclusion of the cash payment feature in options granted enables the Company to provide similar benefits to optionholders without increasing the outstanding Common Shares, to the extent that optionholders utilize this feature. Since inception, 99% of the options exercised have utilized the cash payment feature.

Options are granted at the market value of the Common Shares on the day prior to the date of the grant and in a number that is at or above the median value of long-term incentives provided by upstream oil and gas industry companies, as reported through independent consulting surveys which are reviewed prior to grant. Option grants can be increased to respond to specific corporate or individual circumstances as a means of increasing incentive. Options normally vest after three years and expire within ten years of issuance.

In addition to base pay, variable pay and stock options, various perquisites and other benefits are provided on a market competitive basis. Executive Officers are also eligible to receive non-pensionable performance bonuses. These bonuses are usually project-related and acknowledge extraordinary achievements.

Effective January 1, 2005, the Company adopted executive share ownership guidelines to further support the Company's belief that share ownership requirements better align the interest of executives to those of shareholders. The guidelines require holdings by the Chief Executive Officer of four times annual base salary, Executive Vice-Presidents of two times annual base salary and by other Vice-Presidents of one times annual base salary. In calculating ownership, the aggregate value of Common Shares owned (including beneficial ownership), and the net value of all exercisable and vested stock options are used. Individuals are provided up to five years from the implementation of these guidelines, or if later, from his or her appointment to an executive position, to reach the minimum required level of share ownership. All Executive Officers currently meet executive share ownership guideline requirements.

2004 Executive Compensation

Total compensation of the Named Executive Officers was reviewed at the Compensation Committee meeting in March 2004. The Compensation Committee approved market adjustments to base salaries for Named Executive Officers at that time, following a review of the peer group of companies used to establish compensation levels for the executive group. This peer group consists of oil and gas companies of similar size and with similar international challenges as Talisman. This international comparator group reflects the combined domestic and international scope of responsibilities at the executive level and the broader geographic employment market. The variable pay target increased, effective January 1, 2004, to 100% for the Chief Executive Officer, to align current competitiveness on a target total cash basis.

In determining the 2004 variable pay for all Executive Officers, the Compensation Committee reviewed 2004 corporate performance against targets previously set out for financial and operational measures outlined under the heading "Compensation Program Design". The Compensation Committee also reviewed the individual performance of all Executive Officers in 2004 against their individual financial, operational, strategic and leadership targets established on January 1, 2004, which are a subset of the corporate performance targets. Based on these detailed reviews, variable payouts for 2004 performance were approved, as shown in Table 1 and will be paid on April 1, 2005. These payouts are above target levels, reflecting another very successful year of financial and operational results that included record cash flow, increased production, and significant share price appreciation.

Submitted by the Management Succession and Compensation Committee of the Board of Directors of Talisman Energy Inc.

Al L. Flood, Chairman

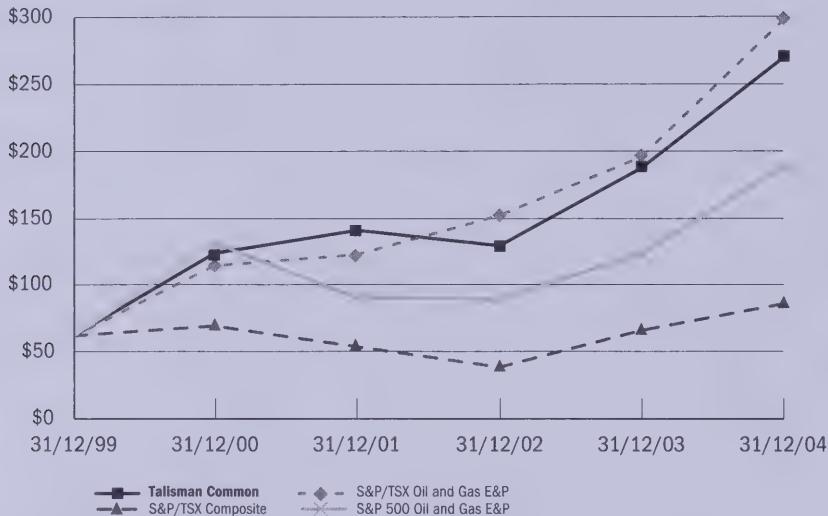
Douglas D. Baldwin

Lawrence G. Tapp

Stella M. Thompson

Performance Graph

The following graph shows the performance of Common Shares relative to the S&P/TSX Composite, the S&P/TSX Oil and Gas Exploration and Production and the S&P 500 Oil and Gas Exploration and Production indices over the period December 31, 1999 to December 31, 2004.



\$100 Investment In Base Period	1999	2000	2001	At December 31			Annual Average Return
				2002	2003	2004	
Talisman Common Shares ¹	100.00	150.81	165.63	157.15	205.33	273.70	22.31%
S&P/TSX Oil and Gas E&P Total Return Index	100.00	146.53	151.50	176.00	211.46	297.47	24.36%
S&P/TSX Composite Total Return Index	100.00	107.41	93.91	82.23	104.20	119.29	3.59%
S&P 500 – Oil and Gas E&P Total Return Index	100.00	158.53	125.31	123.47	152.40	205.22	15.46%

Note:

1 Assumes dividends are reinvested.

Remuneration of Directors

In 2004, the Board of Directors considered and approved a new compensation structure for non-employee directors. For the year ended December 31, 2004, each non-employee director of the Company, other than the Chairman of the Board, was paid an annual fee of \$61,200, which may be received as cash or in deferred share units ("DSUs"), and an additional annual fee of \$40,800, which must be received in DSUs. The Chairman of the Board received an annual fee of \$180,000, which may be received as cash or in DSUs (in total and inclusive of all meeting fees or committee fees), an additional annual fee of \$120,000, which must be received in DSUs, and was provided Company-paid office space and reimbursement of related office expenses. Each director also received an attendance fee of \$1,700 for each regular meeting of the Board of Directors attended. In addition, each committee member was paid an annual fee of \$6,000 for each regular committee on which he or she served (an additional \$9,000 for the Chair of a committee) and an attendance fee of \$1,700 for each committee meeting attended. Each director also received a fee of \$800 for each teleconference meeting held. Directors residing outside of Canada receive the same nominal fees described above, but in U.S. funds.

The Company adopted a Deferred Share Unit Plan for non-employee directors (the "DSU Plan") effective January 1, 2001. Under the DSU Plan, non-employee directors of the Company may elect, on an annual basis and in addition to their mandatory allocations above, to receive all or part of their cash compensation in the form of deferred share units. The DSU Plan enhances the alignment of director and shareholder

interests in that the value of the units directly tracks the performance of the Common Shares. Under the DSU Plan, DSUs are allocated to a notional account on a quarterly basis by dividing the amount of compensation that the director has elected to receive in DSUs by the market value of the Company's Common Shares. A participant in the DSU Plan is not entitled to the benefit of the value of his or her DSU Plan account until such time as the participant ceases to be a director of the Company. No shares are issued under this plan.

Non-executive directors are eligible to participate in the Director Stock Option Plan (the "DSOP"), implemented in 1998. Between 1993 and 1998, directors were eligible to participate in the ESOP. The DSOP was amended in 2003 to include the cash payment feature, described under the Compensation Program Design section, on all existing and future options. Options are fully vested after three years and expire if not exercised within ten years of issuance. No stock options were granted to non-executive directors in 2004. As a result of the new compensation structure for non-executive directors described above, the Company does not currently intend to grant further stock options under this plan.

Effective January 1, 2004, the existing director share ownership policy was further strengthened, requiring directors to own 15,000 Common Shares and/or DSUs and the Chairman to own 30,000 Common Shares and/or DSUs within five years of the effective date of the policy or for new non-executive directors, within five years of being elected to the Board.

In addition, directors are reimbursed for their Company-related travel expenses. The Director who is a full-time salaried employee of the Company received no remuneration for serving as a director of the Company.

Securities Authorized for Issuance Under Equity Compensation Plans

The Company has an Employee Stock Option Plan (previously defined as the "ESOP") and a Director Stock Option Plan (previously defined as the "DSOP") pursuant to which it has granted options to purchase Common Shares of the Company. The Company intends to continue to grant options under the ESOP, but does not currently intend to grant any further options under the DSOP. The ESOP and DSOP (collectively, the "Option Plans") are the only equity compensation plans that provide for the issuance of shares of the Company and both have been approved by the shareholders.

The following table provides information as at December 31, 2004, with respect to Common Shares authorized for issuance under the Plans.

Plan Category	Number of Common Shares to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options (b)	Number of Common Shares remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by securityholders	20,788,375	19.58	16,663,875 ¹
Equity compensation plans not approved by securityholders	—	—	—
Total	20,788,375	19.58	16,663,875

Note:

¹ Includes 1,899,000 Common Shares under the DSOP, in respect of which the Company does not currently intend to grant any further options.

Employee Stock Option Plan (ESOP)

The purpose of the ESOP is to promote the interests, growth and development of the Company by providing employees with the opportunity to acquire an increased proprietary interest in the Company. The granting of options only has value to the extent that additional shareholder value is created over time. Options are viewed as an important aspect of total compensation for employees, serving to align their interest with those of the shareholders. Option grants increase with the employee's level in the Company.

As at December 31, 2004, there were 20,377,375 Common Shares, representing 5.4% of the Company's issued and outstanding Common Shares, subject to outstanding options under the ESOP, and 14,764,875 Common Shares, representing 3.9% of the Company's issued and outstanding Common Shares, remaining available for issuance under the ESOP. The number of Common Shares subject to option in favour of any one employee shall not exceed 5% of the total number of Common Shares outstanding at the time of adoption of the ESOP.

The Board has delegated to the Management Succession and Compensation Committee (the "Committee") the authority to grant options pursuant to the ESOP.

The Committee may designate any full-time employee of the Company (or any of its subsidiaries) as individuals who are eligible to receive option awards under the ESOP. The vesting period of options is set at the Committee's discretion but options normally vest after three years.

The term of an option, while set at the Committee's discretion, shall not extend for a period of more than ten years from the date upon which it is granted. The strike price of an option is set by the Committee but must be not less than the mean of the high and low reported prices at which Common Shares were traded on the Toronto Stock Exchange ("TSX") on the last business day before the date on which such option is granted or, if no trade is reported on that day, not less than the mean of the bid and ask quotations on the TSX for the Common Shares at the close of business on that day.

In determining such eligible individuals and the number of Common Shares to be covered by an option, the Committee is required to consider the length of service of each employee and the duties, remuneration and present and potential contribution to the success of the Company of each employee. Options are not transferable and all options must be exercised only by the optionholder, or after his or her death, only by his or her legal representative.

All options include a cash payment feature which provides the optionholder the right to surrender the exercisable option for cancellation in return for a cash payment from the Company. The cash payment is based on the number of options cancelled, multiplied by the amount by which the market price of the Common Shares at the time of surrender exceeds the strike price of the option. The inclusion of the cash payment feature enables the Company to provide similar benefits to optionholders without increasing the outstanding Common Shares, to the extent that optionholders utilize this feature. The Common Shares subject to any option that is surrendered pursuant to the cash payment feature are available for future options granted under the ESOP, as is the case for options which expire or are cancelled without having been exercised.

In addition, under the terms of the Company's standard employee stock option agreement, options expire on the earlier of the normal expiry date and twenty-four months after an employee's retirement. Options are forfeited upon resignation or on the fifth business day after termination for cause. In the event employment is terminated without cause, unvested options expire on the date that the notice of termination is received and vested options expire on the earlier of the normal expiry date or six months following the end of the notice period.

The Board may, without shareholder approval, from time to time alter or amend the ESOP provided that the maximum aggregate number of Common Shares that may be optioned or issued shall not increase (other than from adjustments due to subdivision, consolidation or reclassification of the Common Shares) and the manner of determining the strike price shall not be altered.

Director Stock Option Plan (DSOP)

The provisions of the DSOP are substantially similar to the ESOP described above. As at December 31, 2004, there were 411,000 Common Shares, representing 0.1% of the Company's issued and outstanding Common Shares, subject to outstanding options under the DSOP. As noted above, although there are 1,899,000 Common Shares remaining available for issuance pursuant to the DSOP, the Company does not currently intend to grant any further options under the DSOP as a result of a restructuring of directors' compensation in 2004.

Indebtedness of Directors and Officers

No director, executive officer, employee or former director, executive officer, or employee of the Company or any of its subsidiaries has been indebted to the Company at any time since January 1, 2004.

Interests of Informed Persons in Material Transactions

The Company is not aware of any material interests, direct or indirect, of any "informed person" of the Company, any proposed director of the Company, or any associate or affiliate of any informed person or proposed director, in any transaction since January 1, 2004 or in any proposed transaction which has materially affected or would materially affect the Company or any of its subsidiaries, except as described below.

The directors and various executive officers of the Company own Common Shares of the Company and as such, will be subject to the provisions of the Rights Plan described in this Circular. The Rights Plan does not provide preferential treatment to any director or officer of the Company upon its implementation.

For the purposes of the determination above, "informed person" means: (a) a director or executive officer of the Company; (b) a director or executive officer of a company that is itself an informed person or subsidiary of the Company; (c) any person or company who beneficially owns, directly or indirectly, voting securities of the Company or who exercises control or direction over voting securities of the Company or a combination of both carrying more than 10 percent of the voting rights attached to all outstanding voting securities of the Company other than voting securities held by the person or company as underwriter in the course of a distribution; and (d) the Company after it has purchased, redeemed or otherwise acquired any of its securities, for so long as it holds any of its securities.

The Company complies with the conflict of interest requirements of the *Canada Business Corporations Act* on an ongoing basis. Directors and officers are required to disclose to the Company, in writing or by requesting to have it entered into the minutes of meetings of directors or of meetings of committees of directors, the nature and extent of any interest that they have in a material contract or material transaction, whether made or proposed, with the Company, under certain elaborated circumstances. Directors and officers are reminded at least annually of their

ongoing statutory requirement to declare their interests in a material contract or a material transaction. The Chairman may, as a result of any disclosures made, require an affected director to abstain from a vote on the relevant matter in accordance with the statutory requirements. In addition, directors must comply with the conflict of interest provisions of the Company's Policy on Business Conduct and Ethics.

Statement of Corporate Governance Practices

The Company's Statement of Corporate Governance Practices is set out in Schedule A to this Circular.

Audit Committee Information

Additional disclosure regarding the Audit Committee (including, but not limited to the full text of the Audit Committee Charter, a description of Audit Committee members' education and experience, and a summary of external auditor service fees), is contained in Appendix A to the Company's annual information form for the year ended December 31, 2004.

Shareholder Proposals

A shareholder intending to submit a proposal at an annual meeting must comply with applicable provisions of the *Canada Business Corporations Act*. The Company will include a shareholder proposal in management's proxy circular prepared in connection with the annual meeting of shareholders in 2006 provided that such a proposal is received by the Corporate Secretary in the Company's principal executive office on or before December 2, 2005 and provided that such a proposal is required to be included in the Company's management proxy circular pursuant to the applicable terms of the *Canada Business Corporations Act*.

Directors' and Officers' Liability Insurance

The Company carries directors' and officers' liability insurance to a maximum of US\$50,000,000 per claim, subject to an aggregate annual limit of US\$50,000,000 for all directors and officers. This policy covers all directors and officers and various senior managers of the Company and its subsidiaries. There is no deductible applicable to the policy. The premium payable by the Company for the year January 1, 2005 to January 1, 2006 is US\$297,000. Neither directors nor officers nor managers will pay any portion of the premium.

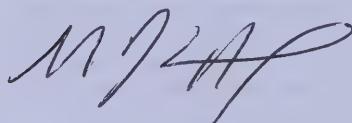
Additional Information

Information related to the Company is available on SEDAR at www.sedar.com. Financial information for the fiscal year ended December 31, 2004 is provided in the Company's comparative audited consolidated financial statements and annual management's discussion and analysis ("MD&A").

Copies of this Circular, the annual report which contains the comparative audited consolidated financial statements of the Company, the annual MD&A, any interim financial statements of the Company subsequent to those statements contained in the annual report, and the Company's annual information form for the fiscal year ended December 31, 2004 as filed with Canadian securities commissions and with the United States Securities and Exchange Commission under Form 40-F, may be obtained without charge by contacting the Investor Relations and Corporate Communications Department, Talisman Energy Inc., Suite 3400, 888 Third Street S.W., Calgary, Alberta, T2P 5C5, or by e-mail at tim@talisman-energy.com.

DIRECTORS' APPROVAL

The contents and the sending of this Circular have been approved by the directors of the Company.



M. Jacqueline Sheppard
Corporate Secretary
March 14, 2005

SCHEDULE A – STATEMENT OF CORPORATE GOVERNANCE PRACTICES

Talisman's corporate governance practices satisfy all the existing guidelines for effective corporate governance established by the Toronto Stock Exchange ("TSX"), all of the New York Stock Exchange ("NYSE") corporate governance listing standards applicable to non-U.S. companies and substantially all of the NYSE Stock Exchange corporate governance listing standards applicable to U.S. companies.

When Multilateral Policy 58-201 and Multilateral Instrument 58-101 (collectively, the "CSA Rules") are implemented by the Canadian Securities Administrators, Talisman either satisfies the requirements of the proposed CSA Rules as published on October 29, 2004, or has implemented procedures designed to meet the same governance objectives.

With respect to the NYSE corporate governance listing standards, Talisman's corporate governance practices differ in only two respects from those applicable to U.S. companies. First, the NYSE listing standards require that the Audit Committee charter specify that the Audit Committee assist the Board of Directors in its oversight of Talisman's compliance with legal and regulatory requirements. Talisman's Board oversees Talisman's compliance with legal and regulatory requirements and this responsibility specifically forms part of the Board's Terms of Reference. Each of the Board committees assists the Board in its oversight of Talisman's compliance with legal and regulatory requirements in each of their areas of responsibility. Secondly, the NYSE listing standards require shareholder approval of all equity compensation plans and any material revisions to such plans, regardless of whether the securities to be delivered under such plans are newly issued or purchased on the open market, subject to a few limited exceptions. In contrast, the TSX rules require shareholder approval of equity compensation plans only when such plans involve newly issued securities. Equity compensation plans that do not provide for a fixed maximum number of securities to be issued must have a rolling maximum number of securities to be issued based on a fixed percentage of the issuer's outstanding securities and must also be approved by shareholders every three years. If the plan provides a procedure for its amendment, the TSX rules require shareholder approval of amendments only where the amendment involves a reduction in the exercise price or an extension of the term of options held by insiders.

The following statement addresses the principal matters relating to the Company's corporate governance practices. The TSX corporate governance guidelines and Talisman's compliance with these guidelines is shown in tabular form at the end of this disclosure, and disclosure in compliance with the proposed CSA Rules is contained throughout the text of this Schedule.

Mandates of the Board, its committees (including position descriptions for the Chair of each committee), the Chairman and the Chief Executive Officer may be obtained from the Company website at www.talisman-energy.com or upon request from: Investor and Corporate Communications Department, Talisman Energy Inc., Suite 3400, 888 Third Street S.W., Calgary, Alberta, T2P 5C5, e-mail: tim@talisman-energy.com. The Terms of Reference for the Board are reproduced in their entirety in this Schedule. In addition, the Terms of Reference for the Audit Committee are reproduced in their entirety in Schedule C to the Company's annual information form for the year ended December 31, 2004.

Independence of the Board

Talisman is in full compliance with the TSX recommendation that "The board of directors of every corporation should be constituted with a majority of individuals who qualify as unrelated directors. An unrelated director is a director who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding." In 2004, the Board of Directors of Talisman was comprised of nine directors, eight of whom, including the Chairman of the Board, qualified as unrelated directors as defined by the TSX. The only related director is James W. Buckee, President and Chief Executive Officer of the Company.

In accordance with a New York Stock Exchange rule that listed companies must have a majority of independent directors, the Board has determined that none of the eight unrelated directors has any material relationship with the Company (other than serving as a director of the Company). Therefore, the Board has determined that all eight unrelated directors (being Douglas D. Baldwin, Kevin S. Dunne, Al L. Flood, Dale G. Parker, Lawrence G. Tapp, Stella M. Thompson, Robert G. Welty and Charles W. Wilson) are independent as defined by the rules of the New York Stock Exchange. Al L. Flood, Douglas D. Baldwin and Chuck Wilson have relationships with the Company through their directorships and shareholdings with the Canadian Imperial Bank of Commerce ("CIBC") in the case of Al L. Flood, TransCanada PipeLines Limited ("TransCanada") and the University of Calgary (the "University") in the case of Douglas D. Baldwin, and Akita Drilling Ltd. ("Akita") in the case of Charles W. Wilson. Talisman has various business dealings with each of CIBC, TransCanada and Akita, and has made donations to the University. The Board of Directors determined that neither Mr. Flood's nor Mr. Baldwin's relationship with Talisman is material on account of the aforementioned relationships, principally on the grounds that (i) the relationships Talisman has with each of CIBC and TransCanada were entered into on terms substantially similar to those that would be offered to comparable counterparties in similar circumstances; and (ii) the termination of a relationship with CIBC, TransCanada or the University in the normal course of business would not reasonably be expected to have a material and adverse effect on the financial condition, results of operations or business of CIBC, TransCanada or the University. In addition, the Board of Directors has determined that Mr. Wilson's relationship with Talisman is not material on account of the aforementioned relationships,

principally on the grounds that: (i) the relationship that Talisman has with Akita was entered into on terms substantially similar to those that would be offered to comparable counterparties in similar circumstances; and (ii) Mr. Wilson's personal economic exposure to Akita is not material to him. Accordingly, Talisman's relationship with each of CIBC, TransCanada, the University and Akita does not compromise Mr. Flood's, Mr. Baldwin's or Mr. Wilson's independence, as applicable.

The proposed CSA Rules also state that the Board shall have a majority of independent directors. An independent director is defined as an individual who has no direct or indirect material relationship with the issuer (that is, a relationship which could, in the view of the issuer's Board of Directors, be reasonably expected to interfere with the exercise of a director's independent judgment). The Board has determined that in accordance with the proposed CSA Rules, eight of the nine directors have no direct or indirect material relationship with the Company and that the Company is in compliance with the majority independent requirement of the proposed CSA Rules.

The composition of the Board, including the independence of the Chairman and his specified role, ensures that the Board has in place appropriate structures and procedures to ensure that the Board can function independently of management. All committees of the Board of Directors are composed entirely of unrelated, independent directors with the exception of the Executive Committee and the Pension Funds Committee, the majority of whose members are unrelated and independent.

Other Directorships

Certain directors of the Company serve as directors of other issuers. Disclosure of these directorships is contained in the Circular under the heading "Election of Directors". Talisman's Governance and Nominating Committee monitors the amount of other board memberships for current and proposed directors on an ongoing basis to ensure the ability of all directors to effectively act in the best interests of the Company.

Responsibilities of the Board

The Board of Directors of Talisman sees its principal role as stewardship of the Company and its fundamental objective as the creation of shareholder value, including the protection and enhancement of the value of the Company's assets. The Board's stewardship responsibility means that it oversees the conduct of the business and management, which is responsible for developing long-term strategy and conducting the Company's day-to-day business. Annually, the Board meets at an extended Board session to review and approve corporate strategy.

The Board assesses and ensures systems are in place to manage the risks of the Company's business with the objective of preserving the Company's assets. The Board, through the Chief Executive Officer, sets the attitude and disposition of the Company towards compliance with applicable laws, environmental, safety and health policies, financial practices and reporting. In addition to its primary accountability to shareholders, the Board is also accountable to employees, government authorities, other stakeholders and the public.

In fulfilling its primary responsibilities, the Board ensures that the Company has:

- established long-term goals and a strategic planning process, identified the principal risks of the Company's business and implemented appropriate systems to monitor and manage those risks;
- established processes to manage and measure management's, and in particular, the Chief Executive Officer's performance in achieving the Company's stated objectives, including appropriate training, monitoring, development and succession planning;
- established internal controls and management systems to effectively monitor the Company's operations and ensure compliance with applicable laws, regulations and policies;
- implemented processes to properly oversee Company sponsored pension plans; and
- adopted a communications program for effectively communicating with and receiving feedback from shareholders, employees, government authorities, other stakeholders and the public.

The Board is also required to:

- satisfy itself as to the business and professional integrity of the Chief Executive Officer and other executive officers, as well as the Chief Executive Officer and executive officers' creation of a culture of integrity through the Company;
- develop the Company's approach to corporate governance, the review of which is led by the Governance and Nominating Committee of the Board; and
- monitor compliance with the Company's code of business conduct and ethics.

Expectations and responsibilities of directors, including basic duties and responsibilities with respect to attendance at board meetings and advance review of meeting materials, are included in the Terms of Reference for the Board and are also communicated in orientation sessions for new Board members.

The Board of Directors may delegate authority over certain matters to a committee of the Board, provided that certain responsibilities of the Board are sufficiently important to warrant the attention of the full Board and, accordingly, are not delegated or are only delegated in a qualified or partial manner, including:

- submitting to shareholders any matter requiring their approval;
- filling vacancies among the directors or appointing additional directors;
- issuing securities, declaring dividends or repurchasing the Company's own shares;
- approving management proxy circulars;
- approving annual financial statements;
- approving the annual statement of reserves data and other oil and gas information and reports thereon; and
- adopting, amending or repealing by-laws.

The Board of Directors has developed Terms of Reference for the Board embodying the foregoing. To assist Board members in performing their responsibilities, the Company has adopted a policy whereby, with the approval of the Chairman of the Governance and Nominating Committee, a Board member may engage an outside advisor at the Company's expense.

Orientation and Continuing Education

The Company has an orientation and development program for its Board. An orientation manual, which is updated on a regular basis, is provided to new Board members who are expected to review and become familiar with its contents. In addition, the Company conducts an orientation session with new directors to review the Company's business, expectations of directors, current issues and opportunities and corporate goals and objectives. The Company also provides directors with opportunities to increase their knowledge and understanding of the Company's business. The Board visits one of the Company's international locations, major domestic facilities or operating areas on an annual basis. Briefings on strategic issues are completed annually, and typically include reviews of the competitive environment, the Company's performance relative to its peers, and any other developments that could materially affect the Company's business. In addition, the Board is briefed on a regular basis on corporate governance developments and emerging best practices in corporate governance. In 2004, activities of the Board included a site visit to one of the Company's international operations, a review of the Company's major subsidiaries, as well as a reserves orientation session for all Board members.

Committees of the Board

The Board of Directors has established six committees: the Audit Committee, the Executive Committee, the Governance and Nominating Committee, the Management Succession and Compensation Committee, the Pension Funds Committee and the Reserves Committee. All committees are comprised of a majority of unrelated, independent directors. The President and Chief Executive Officer is the only related director on the Board and is a member of the Executive Committee and the Pension Funds Committee. All other committees are composed exclusively of unrelated, independent directors. With the exception of the Executive Committee, for which there are no regularly scheduled meetings, the committees of the Board convene in accordance with an annually developed schedule.

Summary of Meetings Held, Attendance Record

During 2004, the following Board and committee meetings were held:

Board of Directors	7
Executive Committee	1
Audit Committee	5
Management Succession and Compensation Committee (MSCC)	5
Pension Funds Committee	3
Governance and Nominating Committee (G & N)	5
Reserves Committee	2

Of the Board meetings listed above, one was called as a special meeting and one was held outside of Canada. In addition, one written resolution was passed by the Board during the year ended December 31, 2004.

In-camera sessions comprising only independent directors are a regular feature of Board meetings and the Roles and Responsibilities of the Chairman of the Board specifically contemplate that the holding of such meetings is a duty of the Chairman. During the year ended

December 31, 2004, the Board conducted a session of independent directors as part of its strategic planning process. In addition, separate in-camera sessions were conducted by the Reserves Committee with the Company's Internal Qualified Reserves Evaluator and by the Audit Committee with both the external auditor and internal auditors. The Chairman maintains regular contact with Board members regarding issues to come before the Board, and to solicit views on matters considered important to the function of the Board.

The attendance record of each director during the 12 month period ended December 31, 2004 is as follows:

Name	Committee Memberships	Board Meetings Attended	Committee Meetings Attended
Douglas D. Baldwin	Executive, MSCC, G & N, Reserves	6 of 7 ¹	10 of 13 ¹
James W. Buckee	Executive, Pension	7 of 7	3 of 3
Kevin S. Dunne	G & N, Reserves, Pension	7 of 7	10 of 10
Al L. Flood	Audit, MSCC	7 of 7	10 of 10
Dale G. Parker	Audit, Pension	7 of 7	8 of 8
Lawrence G. Tapp	MSCC, G & N	7 of 7	10 of 10
Stella M. Thompson	Executive, MSCC, Pension	7 of 7	8 of 8
Robert G. Welty	Audit, G & N	7 of 7	7 of 7
Charles W. Wilson	Executive, Audit, Reserves	7 of 7	8 of 8
Roland Priddle ²	Pension, G & N	2 of 2	5 of 5

Notes:

1 Due to a scheduling conflict, Mr. Baldwin was unable to attend a single session at which one Board meeting and three committee meetings were held.

2 Mr. Priddle retired from the Board of Directors on May 4, 2004.

Board Succession

In 2004, the Governance and Nominating Committee considered succession planning for Board members and adopted screening and assessment guidelines to assist in the process of identifying new Board members. To assist in the Company's upcoming selection process, the Governance and Nominating Committee has created a profile of ideal characteristics and qualifications of new nominees which takes into account the Company's governance framework and current Board composition.

Audit Committee

Members: The Audit Committee consists of **Al L. Flood**, **Dale G. Parker**, **Robert G. Welty¹**, and **Charles W. Wilson**, all of whom are unrelated, independent directors. One member of the Audit Committee simultaneously serves on the audit committees of more than three public companies. The Board has determined that such simultaneous service does not impair the ability of this member to effectively serve on Talisman's Audit Committee.

The Board has also determined that all members of the Audit Committee are "financially literate" as defined in Multilateral Instrument 52-110 and that Robert Welty is an "audit committee financial expert" as defined by the listing standards of the New York Stock Exchange and related US securities legislation. An individual is considered financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the issuer's financial statements.

Mandate: The primary roles and responsibilities of the Audit Committee include:

- reviewing and recommending to the Board for approval, the Company's annual earnings press release, annual financial statements and the related discussion and analysis of management;
- reviewing and approving all interim earnings press releases, the Company's interim financial statements (prior to their publication, filing or delivery to securityholders) and the related discussion and analysis of management;
- reviewing and approving, as prescribed, other financial information;
- recommending to the Board the auditors who will be proposed at the annual shareholders' meeting for appointment as the Company's external auditor for the ensuing year;

Note:

1 Denotes Committee Chair.

- evaluating and ensuring the independence of the Company's auditor;
- reviewing and pre-approving the terms of the annual external audit engagement plan, as well as non-audit services the auditor is to perform;
- reviewing results of external audit activities;
- reviewing the Company's ongoing relationship with its auditor;
- maintaining direct access to the Company's internal auditors and external auditor and meeting separately with each group;
- overseeing the internal audit function of the Company and its relationship with the Company's auditors and management;
- reviewing and assessing regularly:
 - (a) the quality and acceptability of accounting policies and financial reporting practices used by the Company;
 - (b) any significant proposed changes in financial reporting and accounting policies and practices to be adopted by the Company;
 - (c) any new or pending developments, in accounting and reporting standards that may affect the Company;
 - (d) the key financial estimates and judgments of management that may be material to the financial reporting of the Company;
 - (e) policies related to financial disclosure risk assessment and management; and
 - (f) responses by management to material information requests from government or regulatory authorities which may have an impact on the financial reporting of the Company;
- reviewing and obtaining reasonable assurance that the Company's internal financial control and information systems are properly designed and effectively implemented to produce accurate, appropriate and timely financial information;
- reviewing insurance coverage of significant business risks;
- receiving a report on the Company's material subsidiaries concerning any material non-routine structures;
- reviewing corporate policies within the scope of its responsibility and monitoring compliance with such policies;
- in respect of matters within the Audit Committee's purview and delegation, assisting the Board in its oversight of the Company's compliance with legal and regulatory requirements;
- directing and supervising the investigation into any matter brought to the Committee's attention within the scope of its duties; and
- reporting to the Board at each regularly scheduled meeting following any Audit Committee meeting.

The Audit Committee has the authority to engage independent counsel and other advisers having special competencies, as it determines necessary to carry out its duties, and it determines the appropriate amount of funding the Company is to provide for compensation of such advisors.

For additional information on the Audit Committee, please see Schedule C to the Company's annual information form for the year ended December 31, 2004.

Audit Committee Report

The following report of the Audit Committee of the Company shall not be deemed to be "soliciting material" or to be "filed" with the Canadian securities regulators or the U.S. Securities and Exchange Commission ("SEC"), nor shall this report be incorporated by reference into any filing made by the Company under the U.S. Securities Act of 1933, as amended, or the U.S. Securities Act of 1934, as amended.

The Audit Committee met with management and the independent auditor to review and discuss the December 31, 2004 financial statements. The Audit Committee also discussed with the independent auditor the matters included in the U.S. Statement on Auditing Standards No. 61 (Communication with Audit Committees). The Audit Committee has also received written disclosures from the independent auditor included in the U.S. Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Audit Committee discussed with the independent auditor that firm's independence.

Based upon the Audit Committee's review and discussions with management and the independent auditor, and the Audit Committee's review of the representations of management and the independent auditor, the Audit Committee recommended that the Board of Directors approve the audited consolidated financial statements for filing with the Canadian securities regulators and the SEC, and include the audited consolidated financial statements in the Company's annual report to shareholders for the year ended December 31, 2004.

The Audit Committee is committed to compliance with all applicable accounting policies, procedures and related controls. In accordance with the requirements of the *US Securities Exchange Act of 1934* and Multilateral Instrument 52-110, the Audit Committee has adopted procedures for: (a) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters. These procedures will be implemented prior to the 2005 shareholders' meeting. The Company has amended its Policy of Business Conduct and Ethics to codify these practices.

The Audit Committee

Robert G. Welty, Chair

Al L. Flood

Dale G. Parker

Charles W. Wilson

Executive Committee

Members: The Executive Committee consists of **Douglas D. Baldwin¹, James W. Buckee, Stella M. Thompson** and **Charles W. Wilson**, of whom only James W. Buckee is a related, non-independent director.

Mandate: The Executive Committee is an extension of the full Board and convenes to take action when it is not practicable to call a meeting of the full Board. Consequently, the Executive Committee has no regularly scheduled meetings. The Executive Committee may exercise, subject to applicable laws, all of the powers and discretions of the full Board, provided that the powers of the Committee do not include those listed previously as warranting the attention of the full Board.

Governance and Nominating Committee

Members: The Governance and Nominating Committee consists of **Douglas D. Baldwin, Kevin S. Dunne, Lawrence G. Tapp¹** and **Robert G. Welty**, all of whom are unrelated, independent directors.

Mandate: The primary roles and responsibilities of the Governance and Nominating Committee include:

- developing a set of corporate governance principles and guidelines applicable to the Company and reviewing and approving the Company's annual disclosure of corporate governance compliance;
- establishing a long-term plan for composition of the Board;
- establishing a process for identifying, recruiting and appointing new directors and recommending nominees for election to the Board (see discussion below);
- reviewing and recommending the education and orientation program for new Board members;
- reviewing periodically the size of the Board to ensure its continued effectiveness;
- assessing the effectiveness of, and ensuring there is a succession plan for, the Chairman of the Board;
- reviewing and determining director compensation to ensure such compensation properly reflects the responsibilities and risks involved in being a director (this includes, but is not limited to reviewing the purpose of, and recommending grants under, the Deferred Share Unit Plan);
- developing written position descriptions for the Chairs of the Committees and the Chairman of the Board;
- reviewing the general responsibilities and function of the Board, its committees and the roles of the Chairman of the Board and the Chief Executive Officer;
- assessing the needs of the Board in terms of frequency, location and conduct of Board and committee meetings;
- in respect of matters within the Governance and Nominating Committee's purview and delegation assisting the Board in its oversight of the Company's compliance with legal and regulatory compliance;
- considering, and when appropriate, granting waivers from the application of the Policy on Business Conduct and Ethics to executive officers and directors. All material waivers shall be promptly disclosed to shareholders in accordance with securities legislation; and
- considering requests from individual directors or committees to engage outside advisors.

Note:

¹ Denotes Committee Chair.

Management Succession and Compensation Committee

Members: The Management Succession and Compensation Committee consists of **Douglas D. Baldwin**, **Al L. Flood¹**, **Lawrence G. Tapp** and **Stella M. Thompson**, all of whom are unrelated, independent directors.

Mandate: The primary roles and responsibilities of the Management Succession and Compensation Committee include:

- reviewing succession plans for key management positions within the Company;
- reviewing management development policies and practices and staffing plans in the Company;
- reviewing and recommending to the Board for approval the compensation and benefit policies of the Company and its subsidiaries, the terms and conditions of employee benefit plans, including incentive-compensation plans and equity-based compensation plans;
- leading the process for assessing the performance of the Chief Executive Officer;
- developing a written position description position for the Company's Chief Executive Officer and reviewing the employment agreements and annual performance contracts of the Chief Executive Officer and executive officers;
- reviewing and approving the compensation levels of executive officers. In considering the Chief Executive Officer's compensation level, the Committee reviews and approves the corporate goals and objectives relevant to the Chief Executive Officer's compensation, evaluates the Chief Executive Officer's performance in light of those goals and objectives, and determines and approves the Chief Executive Officer's compensation level based on this evaluation;
- reviewing and approving employee stock option grants in accordance with the terms of the Employee Stock Option Plan;
- reviewing human resource strategies and policies;
- producing and reviewing the Company's disclosure of executive compensation; and
- in respect of matters within the Management Succession and Compensation Committee's purview and delegation, assisting the Board in its oversight of the Company's compliance with legal and regulatory requirements.

Pension Funds Committee

Members: The Pension Funds Committee consists of **James W. Buckee**, **Kevin S. Dunne**, **Dale G. Parker**, and **Stella M. Thompson¹**, of whom only James W. Buckee is a related, non-independent director.

Mandate: The primary roles and responsibilities of the Pension Funds Committee include:

- approving the investment objectives and policy of the Company's pension plans;
- reviewing the investment strategy, risk profile and performance of the plans and approving the asset class allocations of the plans;
- approving the appointment and termination of investment managers and reviewing costs associated with the plan administration;
- reviewing and approving annual financial statements and management reports of each plan; and
- in respect of matters within the Pension Funds Committee's purview and delegation, assisting the Board in its oversight of the Company's compliance with legal and regulatory requirements.

Reserves Committee

Members: The Reserves Committee consists of **Douglas D. Baldwin**, **Kevin S. Dunne** and **Charles W. Wilson¹**, all of whom are unrelated, independent directors.

Mandate: The primary roles and responsibilities of the Reserves Committee include:

- reviewing the Company's procedures relating to the disclosure of information with respect to oil and gas activities;
- reviewing the Company's procedures for providing information to the qualified reserves evaluator or auditor who reports on reserves data;
- meeting with management and the qualified reserves evaluator or auditor to review the reserves data and the report of the qualified reserves evaluator or auditor and to determine whether any restrictions affect the ability of the qualified reserves evaluator or auditor to report on reserves data without reservation;

Note:

¹ Denotes Committee Chair.

- reviewing and recommending to the Board for approval the content and filing of the Company's annual statement of reserves data and other oil and gas information;
- reviewing and recommending to the Board for approval the filing of the annual report on reserves data by the qualified reserves evaluator or auditor;
- reviewing and recommending to the Board for approval the content and filing of the Company's annual report of management and directors on oil and gas disclosure; and
- in respect of matters within the Reserves Committee's purview and delegation, assisting the Board in its oversight of the Company's compliance with legal and regulatory requirements.

Roles and Responsibilities of the Chairman of the Board

The principal role of the Chairman of the Board is to manage and provide leadership to the Board of Directors. The Chairman is accountable to the Board and acts as a direct liaison between the Board and management of the Company. In addition, the Chairman acts as a communicator for Board decisions where appropriate.

Other duties and responsibilities of the Chairman include:

- providing independent advice and counsel to the Chief Executive Officer;
- ensuring that the directors are properly informed and that sufficient information is provided to enable the directors to form appropriate judgments;
- developing and setting the agendas for meetings of the Board, in concert with the Chief Executive Officer; and
- recommending to the Board the appointment of members to the committees of the Board after consultation with the directors, management and the Governance and Nominating Committee.

In addition, the Chairman of the Board is specifically charged with responsibility for leading and managing the Board in discharging its responsibilities. Annually, the Chairman conducts an evaluation of the effectiveness of the Board, its committees and the individual directors, that includes the circulation of a written questionnaire, and interviews with each individual Board member. The Chairman then reports his findings to the Governance and Nominating Committee and to the full Board and seeks Board approval to implement any recommendations that may result from this process. The Chair of the Governance and Nominating Committee evaluates the effectiveness of the Chairman annually. The Chairman's mandate directs him to ensure that the directors hold regular discussions without management present and he presides at such sessions. In addition, the Chairman acts as the Board's principal communicator with management.

Roles and Responsibilities of the Chief Executive Officer

The Chief Executive Officer is responsible for leading the development and execution of the Company's long term strategy with a view to creating shareholder value. The Chief Executive Officer's leadership role also entails being ultimately responsible for all day-to-day management decisions and for implementing the Company's long and short term plans. The Chief Executive Officer acts as a direct liaison between the Board and management of the Company and communicates to the Board on behalf of management. The Chief Executive Officer also communicates on behalf of the Company to shareholders, employees, Government authorities, other stakeholders and the public.

Other duties and responsibilities of the Chief Executive Officer include:

- leading the development of the Company's strategy, and leading and overseeing the implementation of the Company's long and short term plans in accordance with its strategy;
- assessing the principal risks of the Company to ensure that these risks are being monitored and managed;
- ensuring effective internal controls and management information systems are in place;
- ensuring that the Company maintains high standards of corporate citizenship and social responsibility wherever it does business;
- in concert with the Chairman, developing Board agendas; and
- abiding by specific internally established control systems and authorities, leading by personal example and encouraging all employees to conduct their activities in accordance with all applicable laws and the Company's standards and policies, including its environmental, safety and health policies.

In addition, the Chief Executive Officer is made directly responsible for achieving the goals of the Company through an annual performance contract, which sets out specific financial, operational, long-term and short-term strategic and leadership goals. Please see the section headed "Summary of Executive Compensation" for a discussion of how the Chief Executive Officer's compensation is directly linked to achievement of the goals set out in his annual performance contract.

Director Share Ownership Policy

The Company adopted a Deferred Share Unit Plan for non-employee directors effective January 1, 2001 to support the alignment of director and shareholder interests. More information about the Deferred Share Unit Plan is provided under the heading "Remuneration of Directors" in the Circular.

In August 1998, the Board adopted a program regarding director ownership of Company shares, which was subsequently updated by the Company's Governance and Nominating Committee in May 2004. The program requires non-executive directors to own a minimum number of Common Shares and DSUs, to be accumulated over a five year period. Taking into consideration the 3 for 1 share split of the Company effected in May 2004, the following accumulation schedule has been adopted:

Timetable¹	Amount of Ownership Required — Non Executive Directors other than Chairman^{2, 3}	Amount of Ownership Required — Chairman^{2, 3}
End of Year 1	3,000 Common Shares and/or DSUs	6,000 Common Shares and/or DSUs
End of Year 2	6,000 Common Shares and/or DSUs	12,000 Common Shares and/or DSUs
End of Year 3	9,000 Common Shares and/or DSUs	18,000 Common Shares and/or DSUs
End of Year 4	12,000 Common Shares and/or DSUs	24,000 Common Shares and/or DSUs
End of Year 5	15,000 Common Shares and/or DSUs	30,000 Common Shares and/or DSUs

Notes:

1 Refers to years of service as opposed to calendar years. Year 1 is deemed to have commenced on May 1, 2004 for all existing directors, and will commence on May 1 of such later year during which any new individual is elected director of the Company.

2 James W. Buckee as President and Chief Executive Officer, is required to comply with the Company's Executive Share Ownership Policy described below.

3 The Company does not currently intend to grant director stock options to non-executive directors.

In addition and irrespective of a non-executive director's actual Common Share or DSU ownership, a minimum of 40% of the annual Board retainer must be allocated to the DSU program. In addition, a director may voluntarily elect that all or a portion of his or her committee and Board attendance fees be allocated to the DSU program.

All nominees for election as director currently own Talisman shares that meet or exceed the levels of ownership set by the internal program described above.

Executive Share Ownership Guidelines

In December 2004, the Management Succession and Compensation Committee considered and approved Executive Share Ownership Guidelines applicable to various officers of the Company effective January 1, 2005. The following basic accumulation schedule has been adopted:

Executive Level	Ownership requirement
Chief Executive Officer	4 times base salary
Executive Vice-President	2 times base salary
Vice-President	1 times base salary

Executives to whom this policy applies must reach the minimum required level of share ownership within five years of the implementation of the policy. Ownership requirements also apply to persons becoming executives, and such individuals are required to reach the required level within five years of the date of his or her appointment. In calculating ownership, the aggregate value of Common Shares owned, and the net value of all exercisable and vested stock options may be used.

Policy on Business Conduct and Ethics

In December 2003, Talisman revised its longstanding Policy on Business Conduct and Ethics to better reflect the evolving area of corporate responsibility and to incorporate the new corporate governance standards. In March 2005, Talisman amended its Policy on Business Conduct and Ethics to elaborate Talisman's policies with regard to complaints on accounting matters, internal accounting controls and auditing matters.

Entitled the "Policy on Business Conduct and Ethics", the code is applicable to all directors, officers and employees of the Company, and can be obtained from Talisman's website at www.talisman-energy.com or upon request from: Investor and Corporate Communications Department, Talisman Energy Inc., Suite 3400, 888 Third Street S.W., Calgary, Alberta, T2P 5C5, e-mail: tlm@talisman-energy.com. Upon implementation of the final CSA Rules, Talisman anticipates that it will also file the Policy on Business Conduct and Ethics with Canadian securities regulators on the SEDAR website.

The Board monitors compliance with the Policy on Business Conduct and Ethics. Certificates are required at least annually from all managers and appropriate employees, as well as all officers and directors of the Company certifying compliance with the Policy on Business Conduct and Ethics or disclosing any deviations therefrom. Disclosures contained in the certificates are compiled and reported to the Board of Directors for consideration. No waivers from this policy were granted for the benefit of the Company's directors or executive officers during the year ended December 31, 2004.

Management Performance

The terms of the mandate of the Board ensure that the Company annually confirms or redetermines its long-term strategy and strategic objectives and sets its budget and development plan for the ensuing three year period. This process produces specific annual and longer term goals for the Company that are further developed into specific performance contracts for each of the executive officers of the Company based upon that executive officer's role in the Company. Through this process, each executive officer (including the President and Chief Executive Officer) individually, and the executive officers as a whole, are made directly responsible for achieving the annual and medium term goals of the Company. A significant portion of the annual compensation of each executive officer is based upon achieving these Company and individual goals.

Shareholder Communications

Talisman's shareholder communications program specifically adopts the principles of timely, accurate and efficient disclosure of information concerning the Company to all shareholders. In addition to the required annual, quarterly and timely reporting of information, the Company regularly makes presentations to industry analysts and investors. The Company also meets informally upon request with investors and analysts, provided however, that in any such meeting, the Company strictly adheres to all applicable laws relating to selective disclosure of material information. The Company's Investor Relations and Corporate Communications Department has the specific mandate of responding in a timely manner to all inquiries received from shareholders, analysts and potential investors. Shareholder inquiries or suggestions are forwarded to the appropriate person or to senior management. Shareholders may also obtain corporate information on the Company's external website at www.talisman-energy.com.

TSX Corporate Governance Guidelines

The following is a tabular confirmation of Talisman's compliance with each of the existing TSX corporate governance guidelines. Information about how the Company complies with each guideline is provided in the preceding narrative statement.

Talisman's Compliance	TSX Corporate Governance Guidelines
✓	(1) The board of directors of every corporation should explicitly assume responsibility for the stewardship of the corporation and, as part of the overall stewardship responsibility, should assume responsibility for the following matters: (a) adoption of a strategic planning process; (b) the identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks; (c) succession planning, including appointing, training and monitoring senior management; (d) a communications policy for the corporation; and (e) the integrity of the corporation's internal control and management information systems.
✓	(2) The board of directors of every corporation should be constituted with a majority of individuals who qualify as unrelated directors. An unrelated director is a director who is independent of management and is free from any interest and any business or other relationship which could, or reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the corporation other than interests and relationships arising from shareholding. A related director is a director who is not an unrelated director. If the corporation has a significant shareholder, in addition to a majority of unrelated directors, the board should include a number of directors who do not have interests in or relationships with either the corporation or the significant shareholder and which fairly reflects the investment in the corporation by shareholders other than the significant shareholder. A significant shareholder is a shareholder with the ability to exercise a majority of the votes for the election of the board of directors.

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| <input checked="" type="checkbox"/> | (3) The application of the definition of “unrelated director” to the circumstances of each individual director should be the responsibility of the board which will be required to disclose on an annual basis whether the board has a majority of unrelated directors or, in the case of a corporation with a significant shareholder, whether the board is constituted with the appropriate number of directors which are not related to either the corporation or the significant shareholder. Management directors are related directors. The board will also be required to disclose on an annual basis the analysis of the application of the principles supporting this conclusion. |
| <input checked="" type="checkbox"/> | (4) The board of directors of every corporation should appoint a committee of directors composed exclusively of outside, i.e., non-management directors, a majority of whom are unrelated directors, with the responsibility for proposing to the full board new nominees to the board and for assessing directors on an ongoing basis. |
| <input checked="" type="checkbox"/> | (5) Every board of directors should implement a process to be carried out by the nominating committee or other appropriate committee for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors. |
| <input checked="" type="checkbox"/> | (6) Every corporation, as an integral element of the process of appointing new directors, should provide an orientation and education program for new recruits to the board. |
| <input checked="" type="checkbox"/> | (7) Every board of directors should examine its size and, with a view to determining the impact of the number upon effectiveness, undertake where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision making. |
| <input checked="" type="checkbox"/> | (8) The board of directors should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities and risk involved in being an effective director. |
| <input checked="" type="checkbox"/> | (9) Committees of the board of directors should generally be composed of outside directors, a majority of whom are unrelated directors, although some board committees, such as the executive committee, may include one or more inside directors. |
| <input checked="" type="checkbox"/> | (10) Every board of directors should expressly assume responsibility for, or assign to a committee of directors the general responsibility for, developing the corporation’s approach to governance issues. This committee would, amongst other things, be responsible for the corporation’s response to these governance guidelines. |
| <input checked="" type="checkbox"/> | (11) The board of directors, together with the Chief Executive Officer, should develop position descriptions for the board and for the Chief Executive Officer, involving the definition of the limits to management’s responsibilities. In addition, the board should approve or develop the corporate objectives which the Chief Executive Officer is responsible for meeting. |
| <input checked="" type="checkbox"/> | (12) Every board of directors should have in place appropriate structures and procedures to ensure that the board can function independently of management. An appropriate structure would be to (i) appoint a chair of the board who is not a member of management with responsibility to ensure the board discharges its responsibilities or (ii) adopt alternate means such as assigning this responsibility to a committee of the board or to a director, sometimes referred to as the “lead director”. Appropriate procedures may involve the board meeting on a regular basis without management present or may involve expressly assigning the responsibility for administering the board’s relationship to management to a committee of the board. |
| <input checked="" type="checkbox"/> | (13) The audit committee of every board of directors should be composed only of outside directors. The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to audit committee members as to their duties. The audit committee should have a direct communication channel with the internal and external auditors to discuss and review specific issues as appropriate. The audit committee duties should include oversight responsibility for management reporting on internal control. Although it is management’s responsibility to design and implement an effective system of internal control, it is the responsibility of the audit committee to ensure that management has done so. |
| <input checked="" type="checkbox"/> | (14) The board of directors should implement a system which enables an individual director to engage an outside adviser at the expense of the corporation in appropriate circumstances. The engagement of the outside advisor should be subject to the approval of an appropriate committee of the board. |

TERMS OF REFERENCE – BOARD OF DIRECTORS

ROLES AND RESPONSIBILITIES

The principal role of the Board of Directors is stewardship of the Company with the creation of shareholder value, including the protection and enhancement of the value of its assets, as the fundamental objective. The stewardship responsibility means that the Board oversees the conduct of the business and management, which is responsible for the day-to-day conduct of the business. The Board must assess and ensure systems are in place to manage the risks of the Company's business with the objective of preserving the Company's assets. The Board, through the Chief Executive Officer ("CEO"), sets the attitude and disposition of the Company towards compliance with applicable laws, environmental, safety and health policies, financial practices and reporting. In addition to its primary accountability to shareholders, the Board is also accountable to employees, government authorities, other stakeholders and the public.

A. Primary Responsibilities

The principal responsibilities of the Board required to ensure the overall stewardship of the Company are as follows:

1. the Board must ensure that there are long-term goals and a strategic planning process in place. The CEO, with the approval of the Board, must establish long-term goals for the Company. The CEO formulates the Company's strategy, policies and proposed actions and presents them to the Board for approval. The Board brings objectivity and judgment to this process. The Board ultimately approves, on an annual basis, the strategic plan which takes into account, among other things, the opportunities and risks of the Company's business;
2. the Board must identify and have an understanding of the principal risks associated with the Company's businesses, and must ensure that appropriate systems are in place which effectively monitor and manage those risks;
3. the Board must ensure that processes are in place to enable it to monitor and measure management's, and in particular the CEO's, performance in achieving the Company's stated objectives. These processes should include appropriate training, development and succession planning of management;
4. the Board shall satisfy itself as to the business and professional integrity of the CEO and other executive officers and that the CEO and other executive officers create a culture of integrity throughout the Company;
5. the Board must ensure that the necessary internal controls and management systems are in place that effectively monitor the Company's operations and ensure compliance with applicable laws, regulations and policies;
6. the Board must monitor compliance with the Company's Policy on Business Conduct and Ethics;
7. the Board must ensure that processes are in place to properly oversee Company sponsored pension plans; and
8. the Board must ensure the Company has a communications program in place which effectively communicates with and receives feedback from shareholders. The Board must also ensure that the Company has appropriate processes in place to effectively communicate with employees, government authorities, other stakeholders and the public.

B. Non-Delegable Responsibilities

Pursuant to the *Canada Business Corporations Act* (the "Act"), various matters are considered of such importance so as to warrant the attention of all Directors and, accordingly, the Act prescribes that such matters either cannot be delegated or may only be delegated in a qualified or partial manner:

1. the submission of items to shareholders for their approval;
2. the filling of a vacancy among the directors or in the office of auditor;
3. the appointment of additional directors;
4. the issue of securities;
5. the declaration of dividends;
6. the purchase, redemption or other acquisition of the Company's own shares;
7. the payment of certain commissions prescribed by the Act;

8. the approval of a management proxy circular;
9. the approval of annual financial statements;
10. the adoption, amendment or repeal of by-laws; and
11. the review and approval of
 - (a) the content and filing of the Company's statement of reserves data and other oil and gas information;
 - (b) the filing of the report on reserves data by the Company's Qualified Reserves Evaluator or Auditor; and
 - (c) the content and filing of the Company's report of management and directors on oil and gas disclosure.

C. Typical Board Matters

The following is not an exhaustive list but typifies matters generally considered by the Board in fulfilling its responsibility for stewardship of the Company. The Board may determine it appropriate to delegate certain of these matters to committees of the Board:

1. appointment of officers, other than executive officers;
2. considering the appropriate size of the Board, with a view to facilitating effective decision-making;
3. adopting a process to consider and assess the competencies and skills of each Board member and the Board as a whole;
4. determining the remuneration of directors, auditors, and, if applicable, trustees of the pension funds;
5. reviewing and recommending to shareholders, changes to capital structure;
6. approving the Company's long term strategy and the annual capital expenditure plan of the Company and its subsidiaries and where appropriate any supplementary capital plan;
7. approving banking, borrowing and investment policies;
8. determining dividend policy;
9. developing the Company's approach to corporate governance including, without limitation, developing a set of corporate governance principles and guidelines;
10. approving the holding, location and date of meetings of shareholders;
11. appointment of members to committees of the Board of Directors and approving terms of reference for and the matters to be delegated to such committees;
12. granting any waivers from the Company's Policy on Business Conduct and Ethics for the benefit of the Company's directors or executive officers;
13. granting and delegating authority to designated officers and employees including the authority to commit capital, open bank accounts, sign bank requisitions and sign contracts, documents and instruments in writing;
14. determining the number of directors and recommending nominees for election by the shareholders;
15. if applicable, appointing trustees of the pension plans;
16. approving amendments to the Company's existing plans: Pension Plans, Employee Savings Plan, Employee Stock Option Plan, Director Stock Option Plan, employee benefits plans, or such other plans as the Company approves from time to time;
17. approving the acquisition or disposition of certain corporate assets; and
18. appointing the Company's transfer agents and registrars.

D. Board Committees

The Board of Directors has the authority to appoint a committee or committees of the Board and may delegate powers to such committees (with the exceptions prescribed by the Act). The matters to be delegated to committees of the Board and the constitution of such committees are assessed annually or more frequently as circumstances require. The following committees are ordinarily constituted:

1. the Governance and Nominating Committee, to deal with governance of the Company and the nomination and assessment of Directors;
2. the Audit Committee, to deal with financial reporting and control systems;
3. the Pension Funds Committee, to deal with employee pension plans and related matters;
4. the Management Succession and Compensation Committee, to deal with the assessment of management and succession to key positions and compensation within the Company;
5. the Executive Committee, to deal with general corporate matters and matters which are incidental to previous Board authorizations; and
6. the Reserves Committee, to deal with matters relating to the Company's oil and gas reserves and related reporting.

Composition And Procedure

The Board of Directors is elected annually by shareholders and consists of a minimum of four directors and a maximum of 20 directors, as determined from time to time by the Directors. The number of Directors to be elected at shareholders meetings is currently fixed at nine. While the election of directors is ultimately determined by the shareholders, it is the policy of the Board that a majority of the Directors, as well as the Chairman of the Board, be independent (as defined under applicable stock exchange rules and securities laws).

The Chairman of the Board presides as Chair at all meetings of the Board and shareholders of the Company. The Corporate Secretary or, in the absence of the Corporate Secretary, an Assistant Corporate Secretary attends all meetings of the Board and shareholders and records the proceedings thereof. The Corporate Secretary prepares and keeps minutes and records of all meetings of the Board.

Meetings of the Board of Directors, including telephone conference meetings, are to be held at such time and place as the Chairman of the Board, the President and CEO, an Executive Vice-President who is a Director, or any two Directors may determine. Notice of meetings shall be given to each Director not less than 48 hours before the time of the meeting. Meetings of the Board of Directors may be held without formal notice if all of the Directors are present and do not object to notice not having been given, or if those absent waive notice in any manner before or after the meeting.

Notice of meeting may be delivered personally, given by mail, facsimile or other electronic means of communication.

Any five members of the Board of Directors constitutes a quorum at any meeting.

Each Board member is expected to attend Board meetings and meetings of committees of which he or she is a member and to become familiar with deliberations and decisions as soon as possible after any missed meetings. In that regard, members of the Board are expected to prepare for Board (and committee) meetings by reviewing meeting materials distributed to members of the Board, to the extent feasible, in advance of such meetings. Matters of a confidential or sensitive nature may be discussed at Board (or committee) meetings without advance distribution of meeting materials to members of the Board. It is expected that members of the Board will actively participate in determining and setting the long and short term goals and interests of the Corporation.

In recognition of its independence, the Board shall regularly hold discussions without management present.

A resolution in writing signed by all the Directors entitled to vote on that resolution at a meeting of the Directors is as valid as if it had been passed at a meeting of the Directors. A copy of any such resolution in writing is kept with the minutes of the proceedings of the Directors.

At meetings of the Board, any matter requiring a resolution of the Directors is decided by a majority of the votes cast on the question; and in the case of an equality of votes, the Chair of the meeting is entitled to a second or casting vote.

The Board shall ensure that there is a process in place for annually evaluating the effectiveness of the Board, the committees of the Board and individual directors.

Compensation

No Director, unless he or she is an officer of the Company, should receive remuneration from the Company other than compensation received in his or her capacity as a Director.

SCHEDULE B – SUMMARY OF SHAREHOLDER RIGHTS PLAN

The following is a summary description of the general operation of the Rights Plan.

Term – The Rights Plan expires upon the termination of the Meeting. If the proposed amendments to the Rights Agreement are approved by the shareholders, the Rights Plan will be in effect until the termination of the annual meeting of shareholders in 2008, unless earlier terminated in accordance with its provisions, and the Rights (as defined in the Rights Plan) will expire on such date, unless earlier redeemed by the Board of Directors of the Company.

The Rights – Pursuant to the Rights Agreement, one Right has been issued in respect of each Common Share of the Company outstanding on March 3, 1999 (the “Effective Date”) and in respect of each Common Share issued after that date.

Rights Exercise Privilege – The Rights will separate from the shares to which they are attached and will become exercisable at the time (the “Separation Time”) that is 10 trading days after the commencement or announcement of, or other date determined by the Board of Directors in respect of, a take-over bid to acquire 20% or more of the Common Shares, other than by an acquisition pursuant to a take-over bid permitted by the Rights Plan (a “Permitted Bid”).

The acquisition by a person (an “Acquiring Person”), including associates and affiliates and others acting in concert, of Beneficial Ownership (as defined in the Rights Plan) of 20% or more of the Common Shares, other than by way of a Permitted Bid, is referred to as a “Flip-in Event”. Any Rights held by an Acquiring Person on or after the earlier of the Separation Time or the first date of public announcement by the Company or an Acquiring Person that an Acquiring Person has become such, will become void upon the occurrence of a Flip-in Event. Ten trading days after the occurrence of the Flip-in Event, the Rights (other than those held by the Acquiring Person) will permit the holder to purchase Common Shares at a 50% discount from the market price. The holder will be entitled to purchase that number of Common Shares having an aggregate market price on the date of occurrence of the Flip-in Event equal to twice the Exercise Price for an amount in cash equal to the Exercise Price.

The issue of the Rights is not initially dilutive. Upon a Flip-in Event occurring and the Rights separating from the attached shares, reported earnings and cash flow per Common Share on a fully diluted or non-diluted basis may be affected. Holders of Rights who do not exercise their Rights upon the occurrence of a Flip-in Event may suffer substantial dilution.

Certificates and Transferability – Prior to the Separation Time, the Rights will be evidenced by a legend imprinted on certificates for Common Shares issued from and after the Effective Date. Rights are also attached to such shares outstanding on the Effective Date, although share certificates issued prior to that date will not bear such a legend. Shareholders are not required to return their certificates in order to have the benefit of the Rights. Prior to the Separation Time, Rights will not be transferable separately from the attached shares. From and after the Separation Time, Rights certificates will evidence the Rights, which will be transferable and traded separately from the shares.

Permitted Bid Requirements – The requirements of a Permitted Bid include the following:

1. The take-over bid must be made by way of a take-over bid circular.
2. The take-over bid must be made to all holders of Common Shares other than the offeror. The Rights Plan allows a partial bid to be a Permitted Bid.
3. The take-over bid must not permit Common Shares tendered pursuant to the take-over bid to be taken up prior to the expiry of a period of not less than 60 days and then only if at such time more than 50% of the Common Shares held by shareholders (the “Independent Shareholders”) other than the bidder, its affiliates and persons acting jointly or in concert with the bidder have been tendered pursuant to the take-over bid and not withdrawn. The take-over bid must also provide that any Common Shares deposited pursuant to the bid may be withdrawn until taken up and paid for.
4. If more than 50% of the Common Shares held by Independent Shareholders are tendered to the take-over bid within the 60 day period, the bidder must make a public announcement of that fact and the take-over bid must remain open for deposit of Common Shares for an additional 10 business days from the date of such public announcement.

The Rights Plan allows a competing Permitted Bid (a “Competing Permitted Bid”) to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all the requirements of a Permitted Bid except that, provided such offer is outstanding for a minimum period of 35 days, it may expire on the same date as the Permitted Bid.

Permitted Lock-Up Agreements – A person will not become an Acquiring Person by virtue of having entered into a Permitted Lock-Up Agreement. In essence, a Permitted Lock-Up Agreement will be an agreement by a shareholder to deposit or tender shares to a take-over bid, provided that the agreement meets certain requirements. These requirements are essentially that (i) the terms of the agreement are publicly disclosed and a copy of the agreement is publicly available, (ii) the shareholder who has agreed to tender shares to the take-over bid made by the other party to the agreement (the “lock-up bid”) be allowed to terminate its obligations under the agreement in order to tender the shares to another take-over bid or support another transaction where the offer price under the other bid or transaction is greater than the price or value of the consideration per share at which the shareholder agreed to tender the shares, or is equal to or greater than a specified minimum which is not more than 7% higher than the offer price under the lock-up bid, and (iii) no break-up fees or other penalties that exceed in the aggregate the greater of 2½% of the price or value payable under the lock-up bid and 50% of the increase in the consideration resulting from another take-over bid or transaction shall be payable by the shareholder if the shareholder fails to tender its shares to the lock-up bid.

Waiver and Redemption – If a potential offeror does not wish to make a Permitted Bid, it can negotiate with, and obtain the prior approval of, the Board of Directors to make a bid by take-over bid circular to all shareholders on terms that the Board of Directors considers fair to all shareholders. In such circumstances, the Board of Directors may, prior to a Flip-in Event, waive the dilutive effects of the Rights Plan in respect of such transaction, thereby allowing such bid to proceed without dilution. In such event, such waiver would be deemed also to be a waiver in respect of all other contemporaneous bids made by way of a take-over bid circular. The Board of Directors may also waive the Rights Plan in respect of a particular Flip-in Event that has occurred through inadvertence, provided that the Acquiring Person that inadvertently triggered such Flip-in Event has reduced its beneficial holdings to less than 20% of the outstanding voting shares of the Company. Other waivers of the Rights Plan require approval of the holders of Common Shares or Rights.

Exemptions for Investment Advisors – Investment advisors (for client accounts) and trust companies (acting in their capacity as trustees and administrators) acquiring more than 20% of the Common Shares are exempted from triggering a Flip-in Event, provided that they are not making, or are not part of a group making, a take-over bid.

Supplements and Amendments – The Company is authorized to make amendments to the Rights Plan to correct any clerical or typographical error. The Company may also make amendments to the Rights Plan to maintain its validity as a result of changes in law or regulation, subject to approval at the next meeting of shareholders or holders of Rights (if the Separation Time has occurred), as the case may be.

TALISMAN

ENERGY

2004
ANNUAL
REPORT
SUMMARY

CREATING VALUE IN THE UPSTREAM OIL & GAS BUSINESS

Deep Gas – A North American
success story

Drilling for deep gas
in the BC Foothills

Major new field development
under way in the North Sea

Continued production growth
in Southeast Asia

Exploring some of the world's
most prolific hydrocarbon basins

The Leading Deep Gas Explorer in Canada

A Proven International Track Record

United States

Canada

Trinidad and Tobago

Colombia

Peru

Norway

United Kingdom

Netherlands

Qatar

Algeria

Vietnam

Malaysia

Indonesia

About Talisman

Talisman was established as an independent company in 1992 and is an upstream oil and gas producer with global operations. Talisman's headquarters are in Calgary, Alberta, Canada.

The Company's objective is value creation for its shareholders with a target of 5-10% annual production per share growth.

Talisman's 2004 production was concentrated in North America (47%), the North Sea (32%) and Southeast Asia (18%). Approximately 52% of Talisman's production was crude oil and liquids and 48% was natural gas.

The Company is focusing on larger, deep gas opportunities in North America and large international projects, which it believes will generate higher organic growth rates on average than its peer group.

Talisman is listed on both the Toronto and New York stock exchanges under the symbol TLM. Talisman is also part of the S&P/TSX 60 index. At year end, the Company had an enterprise value (share value and debt) of approximately \$15 billion, with 375 million shares outstanding.

Talisman is committed to conducting its activities in a socially, environmentally and economically responsible manner. Talisman's stakeholders are encouraged to read the Company's 2004 Corporate Responsibility Report.

A Premium Investment

An Effective Strategy

Through successful implementation of its strategy, Talisman has become the leading deep gas explorer in Western Canada and a diversified international producer.

Financial Strength

Talisman generated \$2.9 billion in cash flow in 2004, with year end debt of \$2.5 billion.

Consistent Value Creation

Talisman has grown cash flow per share from \$1.06 in 1993 to \$7.65 in 2004. Talisman's share price has increased at an annual rate of 17% in the Company's first 13 years of business.

Continuing Growth

Since 1993, Talisman has grown production per share at a compound annual rate of 8%. The Company achieved 11% production per share growth in 2004 and expects to meet or exceed its 5-10% production per share growth targets in 2005, 2006 and 2007.

An Experienced Management Team

Talisman's executive team has extensive experience in the industry and has been responsible for the successful development and execution of the Company's strategy.

Readers are referred to the advisories, definitions and abbreviations at the back of this Annual Report Summary. Talisman Energy Inc. has a number of subsidiaries which conduct business in various parts of the world. For ease of reference, the terms "Talisman" and "Company" are used in this Annual Report Summary to refer collectively to Talisman Energy Inc., its direct and indirect subsidiaries and partnership interests held by Talisman Energy Inc. and its subsidiaries, unless the context indicates otherwise. References to production, reserves, acreage and drilling are gross numbers unless otherwise indicated.

Contents

- 1 Inside Cover/Fold**
 - A premium investment
 - Five year summary
- 1 A Discussion with Talisman's President & CEO**
 - Record cash flow and continuing growth
- 4 A Well Executed and Consistent Strategy**
 - Talisman delivered on 2004 promises
 - Talisman's key 2005 targets
- 5 What Differentiates Talisman?**
 - The leading Canadian deep gas explorer
 - An 11 year international track record
- 6 The Business Environment**
 - World demand for energy continues to increase
- 7 Financial and Operating Performance**
 - Record production per share
- 9 Operating Areas**
 - Talisman's North American strategy is to explore...
 - The North Sea provides significant opportunities to create value...
 - Talisman more than doubled production in Southeast Asia...
 - Talisman is active in a number of high risk, high reward exploration plays...
- 13 An Experienced Management Team**
- 14 Corporate Governance**
- 16 Corporate Responsibility**
- 17 Financial Information**
- 22 Corporate Information**
- 23 Market Information**
- 24 Advisories, Abbreviations and Definitions**

A New Format

This Annual Report Summary provides an overview of the Company's operating and financial results, core areas and investor information. The 2004 Annual Report Financial Review contains the Management's Discussion & Analysis, Audited Consolidated Financial Statements and Notes and Supplementary Information and can be obtained from the Company or viewed online at www.talisman-energy.com.

A Discussion With Dr. Jim Buckee,

President & Chief Executive Officer



When you look back at 2004, what stands out? Were there any surprises or disappointments?

The highlights include our sixth consecutive year of record cash flow per share (up 8%) and an increase in production per share of 11% over 2003. The Company replaced 179% of production last year adding 286 mmboe of proved reserves. We also increased dividends and bought back nearly nine million Talisman shares.

In North America, we have a revitalized program with a target to grow natural gas production by 3-5% in 2005, primarily through exploration and development. By comparison, industry-wide natural gas production has declined. I believe that growth is achievable with our expertise and positioning in the deeper, high potential parts of the basin. Examples of our success include our deep b-60-E well at Monkman, which recently commenced production at 66 mmcf/d (sales gas) and the Northeastern US, where five deep horizontal wells each tested at rates in excess of 17 mmcf/d during 2004.

Talisman Energy – Creating Value for Our Shareholders

- Record cash flow of \$2.9 billion
- 11% production per share growth
- 179% proved reserve replacement
- Record high share price
- Strong balance sheet
- 5-10% production per share growth target

Cash Flow Per Share¹
(dollars)



¹ Non-GAAP measure. See inside back cover.

(millions of Canadian dollars unless otherwise stated)	2004	2003	2002	2001	2000
Gross sales	6,874	5,610	5,351	5,039	5,213
Cash flow ¹	2,931	2,729	2,645	2,494	2,413
Net income	663	1,012	544	751	887
Earnings from operations ¹	773	673	434	560	763
Shares outstanding (millions) at December 31	375	384	393	401	406
Per common share					
Cash flow ¹	7.65	7.07	6.58	6.16	5.84
Net income	1.77	2.56	1.29	1.80	2.09
Earnings from operations ¹	2.02	1.74	1.08	1.38	1.85
Annual dividend	0.30	0.23	0.20	0.20	—
Production (boe)	0.42	0.38	0.40	0.38	0.36
Reserves (boe)	4.0	3.5	3.8	3.7	2.9
Total assets	12,408	11,780	12,017	11,228	9,028
Long-term debt	2,457	2,203	2,997	2,794	1,703
Oil production (mbbls/d)	228	217	273	251	244
Gas production (mmcf/d)	1,259	1,090	1,036	1,010	988
Total production (mboe/d) ^{2,4}	438	398	445	419	409
Total net production (mboe/d) ^{3,4}	365	334	366	337	335
Exploration & development spending	2,538	2,180	1,848	1,882	1,179
Year end proved reserves (mmboe)	1,488	1,362	1,485	1,487	1,177
Net oil and gas wells drilled (number)	405	410	310	394	415
Realized oil & gas price (\$/boe) ^{5,6}	42.75	38.51	32.89	32.90	34.74
WTI oil price (US\$/bbl)	41.40	30.99	26.15	25.92	30.35
NYMEX gas price (US\$/mmbtu)	6.09	5.44	3.25	4.38	3.89
Number of permanent employees at December 31	1,870	1,758	1,565	1,358	1,263

¹ Non-GAAP measure. See advisories on inside back cover.

² Production numbers are before royalties, unless otherwise indicated.

³ Net production (after royalties).

⁴ Six mcf of natural gas equals one boe.

⁵ Before hedging.

⁶ Excludes synthetic oil.

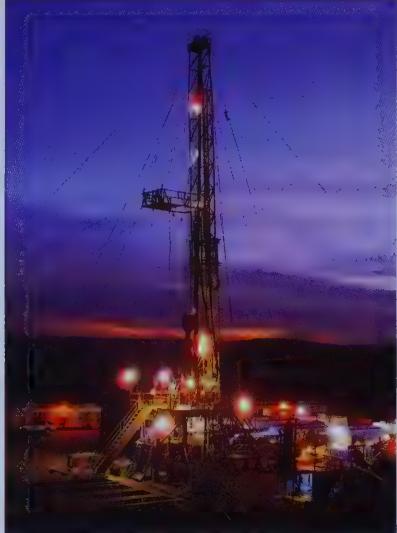
Additional information can be found on pages 20 and 21.

A Very Strong Year in 2004

Operationally and financially, Talisman had a very strong year in 2004 and expects this momentum to continue in 2005.

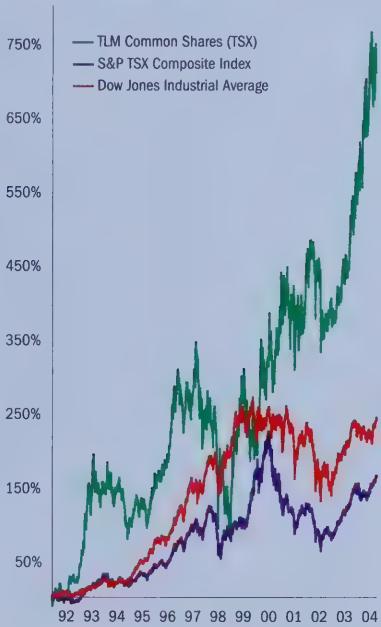
- Cash flow was a record \$2.9 billion on gross sales of \$6.9 billion. Higher oil prices and increased volumes were the major factors. Net income was down largely due to non-recurring gains in 2003 (Sudan asset sale, tax rate changes). Earnings from operations removes one-time and non-operational factors. On this basis, earnings increased 15% to \$773 million. The Company expects \$3.6-\$3.8 billion of cash flow in 2005 (see assumptions).¹
- Talisman subdivided its shares on a three for one basis in May 2004. All of the historical per share numbers have been restated for comparability. Talisman also repurchased approximately nine million shares in 2004, bringing the total to 52.5 million over five years. Talisman increased its dividend by 12.5% to \$0.30/share in 2004.
- Production per share (boe of annual production/average number of shares outstanding) also reached a record high, up 11% over 2003. Since 1993, Talisman has grown its production per share at an annual compound rate of 8%.
- The Company's long-term debt at year end was \$2.5 billion and the debt to cash flow ratio was 0.8.
- Total production averaged 438,000 boe/d in 2004, with the majority of the increase coming from Southeast Asia. Talisman expects production in 2005 to be in the range of 445,000-475,000 boe/d.¹
- Talisman spent a record \$2.5 billion on exploration and development in 2004 and expects to spend \$3.1 billion in 2005. Proved reserves at year end increased 9% to 1.5 billion boe. These reserves are predominantly high quality light oil and natural gas.
- The Company participated in 405 net oil and gas wells in 2004 with a 90% success rate.
- WTI oil prices averaged US\$41.40/bbl in 2004, an increase of US\$10.41 over the previous year. Talisman's realized price averaged \$42.75/boe.

¹ Assumes US\$40/bbl WTI oil price, US\$6.25/mmbtu NYMEX gas price and US\$/C\$ exchange rate of \$0.80. Excludes volumes from the recent acquisition in Norway. Please see the advisories on page 24 and the inside back cover.



Drilling in the Northeastern United States.

Historical Share Price Growth



Talisman's share price continued to reach new highs closing 2004 at \$32.35 and reaching \$44.05 in February 2005. Over the 1992-2004 period, Talisman shares have increased by an average of 17% compounded annually compared to 8% for the S&P/TSX Composite Index and 10% for the Dow Jones Industrial Average.

A Discussion With Dr. Jim Buckee

In the North Sea, volumes were up 7%, in part due to the Tartan North field, which came onstream in August. The Tweedsmuir development was approved and we are building an offshore wind farm demonstrator project.

In Malaysia/Vietnam, the PM-3 CAA project has performed above expectations, producing an average 42,000 boe/d in its first full year of operation, with operating costs of \$1.46/boe. In Indonesia, a 17 year, 2.3 tcf gas sales agreement was signed, with Talisman's share at 36%.

In terms of disappointments, I had high hopes for a couple of potentially large exploration wells that didn't materialize. However, if and when we make large discoveries, they will add significant value. Notwithstanding my longstanding conviction that oil supply is tight while demand growth is inevitable, I was surprised by the continuing strength of commodity prices during the year. Although approximately 80% of our volumes were unhedged in 2004, we had a significant hedging loss. With the continuing strength in oil prices, shareholders will benefit in 2005 because we are virtually unhedged.

What should shareholders pay attention to in 2005?

Our goal is 5-10% production per share growth in 2005, which will be achieved through organic production growth, minor asset acquisitions and share repurchases. Towards that end, we repurchased approximately nine million shares in 2004, an additional 4.4 million shares in early 2005 and acquired a producing oil field in Norway.

In North America, we are drilling a number of large prospects in the Alberta and BC Foothills and Northeastern US. These wells will be a good barometer of the success of our North American programs in 2005. In the UK, the Tweedsmuir development is under way, with first production expected in late 2006 at 45,000 boe/d, net to Talisman. In Indonesia, we are expanding facilities at Corridor to prepare for a significant increase in natural gas sales in 2007.

In Malaysia, the South Angsi field is due to start up this summer, adding an estimated 6,500 bbls/d net to Talisman in 2005 and 12,000 bbls/d in 2006. We have just started offshore production in Trinidad and Tobago and expect to drill our first onshore exploration wells this year.

We should also spud our first exploration well in Qatar this October.

In total, I expect Talisman will generate \$3.6-\$3.8 billion in cash flow this year, or approximately \$10/share on volumes of 445,000-475,000 boe/d, before any major acquisitions.¹

Talisman has set an annual target of 5-10% production per share growth. Why this particular target and how confident are you that you can meet it?

Our focus is on cash flow and production per share while controlling costs and maintaining a strong balance sheet. Of all the metrics, these are the most comparable across different oil and gas companies and underpin real value creation for shareholders. For example, differing accounting treatment of dry hole costs, stock options and acquisitions can make meaningful earnings comparisons difficult.

Cash flow is dependent on prices, which are not in our control, so we have set production per share as a key target. With our asset mix, including deep gas in North America, international oil opportunities and legacy gas assets in Southeast Asia, I believe 5-10% production per share growth for Talisman is very achievable and will place us in the top quartile of our peer group.

Are you looking at non-conventional opportunities such as heavy oil or tight gas?

Our expertise lies in conventional oil and natural gas and our analysis shows these provide better returns for shareholders. Talisman has enough identified opportunities to provide growth for the next several years. Going forward, our extensive international footprint allows us to view a wide range of potential opportunities. It seems to me that non-conventional ventures tie up large amounts of up-front capital, with the risk of cost overruns, production outages, rising input costs and performance issues. Our diversity allows us flexibility and limits individual project risk. Nevertheless, we do participate in tight gas plays, coal bed methane and have interests in some oil sands leases. At the right time, when technology is better proven, we might invest more in these areas.

¹ Assumes US\$40/bbl WTI oil price, US\$6.25/mmbtu NYMEX gas price and US\$/C\$ exchange rate of \$0.80. Excludes the impact of the recent acquisition in Norway. Please see the advisories on page 24 and the inside back cover.

What about a significant share repurchase or major increase in the dividend?

Over the 2003 to 2005 period, Talisman expects to spend over one billion dollars on share repurchases and dividends. We are doing this while maintaining a strong balance sheet and expanding our capital program. I believe this represents a good balance between growing our core business, adding value and returning cash generated by recent high prices to our shareholders.

We are in business to create value for our investors on an ongoing basis and, given our track record, I think shareholders are happy with our performance. The best way to continue to grow value is to use our skills and assets to find and produce oil and natural gas. Shareholders generally prefer share repurchases over increased dividends, as do I, because the market rewards companies with superior per share growth and capital gains are generally more tax effective.

With oil prices hovering around all time highs, is there any upside? Is Talisman a good investment if oil prices fall?

The world consumed an estimated 30 billion barrels of oil in 2004 and replaced only a fraction of that amount. Increasing population and economic growth in countries like India and China continue to push consumption higher. With spare production capacity at record low levels, higher prices are required to ration demand and stimulate drilling activity.

However, given the weakness of the US dollar, the rise in oil prices has been muted in many oil importing countries and energy now forms a smaller part of personal and national budgets in developed countries. Although high in nominal terms, the price of oil, adjusted for inflation, has not yet hit 1980-1989 levels.

So even though prices are high by recent standards, there has been no drop in demand. Given the maturity of the big fields and the political risk in many of the important producing countries, prices will be volatile, but I do not see a return to sub-\$30 oil prices for any sustained period of time.

There is always the risk that oil prices will fall in the event of a major economic slowdown; however, Talisman has a



3-D seismic imaging used to identify natural gas targets in Western Canada.

very strong balance sheet, as well as a robust and flexible investment portfolio. This would allow us to continue organic growth and acquire assets in a potentially less competitive environment. Also, international production sharing contracts tend to have very low finding, development and operating costs and allow for early cost recovery. In our PSC areas, the government, not the investor, has the most exposure to lower prices.

In the longer term, our growth profile, exploration and development portfolio, technical and commercial expertise and the underlying trends for oil and natural gas prices bode well for Talisman shareholders.

Any final comments?

Sadly, Peter Widdrington, a former Chairman of our Board, passed away suddenly in February of this year. Peter will be missed by his many friends at Talisman.

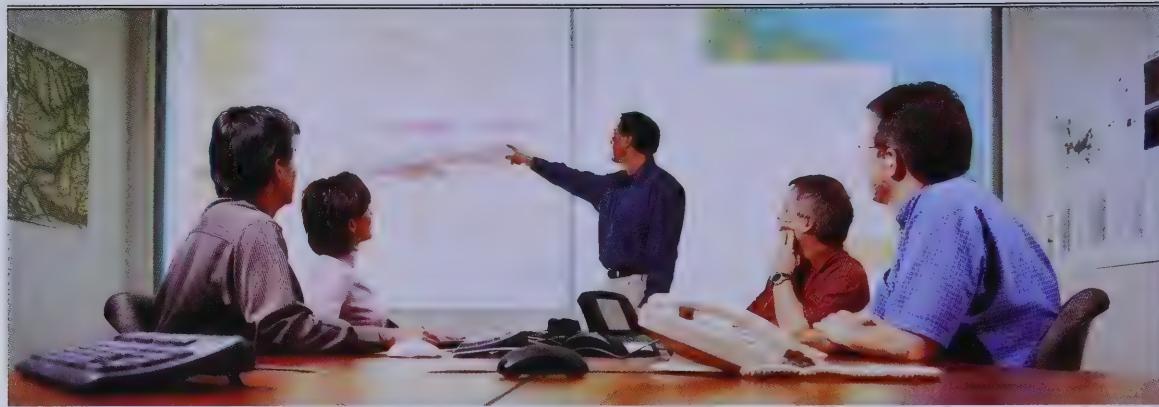
I would like to thank our Board for their guidance and support. I would also like to thank Talisman's employees and contractors for their continued hard work and commitment.

A handwritten signature in blue ink, appearing to read "jw Buckee". The signature is fluid and cursive, with a clear 'j' at the beginning and 'Buckee' following it.

Jim Buckee

President and Chief Executive Officer
Talisman Energy Inc.

March 14, 2005



Talisman's visualization room in Calgary.

A Well Executed and Consistent Strategy

Talisman's purpose is to create value for its shareholders and we have set a target of 5-10% annual production per share growth. The Company's strategy was formulated in 1993, predicated on the following:

- Energy is a vital business. World demand for energy will continue to increase with economic and population growth. Companies that can efficiently grow their underlying reserves and production per share will create value for their shareholders.
- The traditional oil and natural gas business in North America is relatively mature and very competitive. In order to grow and add value, Talisman will search out larger opportunities either in North America or internationally.

Diversity Lessens Risk and Adds Opportunities

Talisman is predominantly an upstream company and this is where our expertise lies. Our belief is that successful exploration and development drilling creates the most value for shareholders. The Company has diversified its operations and opportunities, focusing on deep gas in North America and large international projects. This lessens risk and provides Talisman with a diverse set of opportunities.

Talisman also prefers to operate and maintain high working interests. This enables us to have better control over project timing, costs and implementation. Talisman operates approximately 80% of its production in North America, 65% in the North Sea and all of its production in Malaysia/Vietnam.

In addition, the Company is pursuing a select number of high impact exploration opportunities. Although these prospects typically involve higher risk, a large successful discovery would add significant value. The various projects we are

currently developing (Tweedsmuir, South Angsi, Angostura and some parts of PM-3 CAA) are the result of Talisman's previous exploration success.

We Delivered on Our Promises in 2004

In our 2003 Annual Report, we set out a number of key performance measures for 2004:

- **Production of 415,000-445,000 boe/d.** Production averaged 438,000 boe/d.
- **Cash flow of \$5.67-\$7.33 per share.** Cash flow per share was \$7.65, with higher than expected oil and gas prices.
- **Exploration and development spending of \$2.3 billion.** Talisman spent close to \$2.5 billion, announcing a major increase in North American spending in July.
- **An expected increase in unit operating costs of 5-10%.** Talisman's unit operating costs were up 4% with additional production in relatively low cost areas.
- **Participation in approximately 760 exploration and development wells.** The Company participated in 698 wells with a 92% success rate.

Talisman's Key Targets in 2005¹

- Production per share growth of approximately 10%
- Production of 445,000-475,000 boe/d
- \$3.1 billion in exploration and development spending
- Unit operating costs and transportation costs are expected to fall by 5-7%
- Cash flow per share of \$9.80-\$10.40

¹ Assumes US\$40/bbl WTI oil price, US\$6.25/mmmbtu NYMEX gas price, C\$/£ exchange rate of \$2.25 and US\$/C\$ exchange rate of \$0.80. Excludes the impact of the recent acquisition in Norway. Detailed guidance can be found on Talisman's website at www.talisman-energy.com.



Talisman-operated PM-3 CAA facilities in Malaysia/Vietnam.

What Differentiates Talisman?

Talisman is proud of its track record of value creation as measured by production per share growth.

Talisman differs from its North American based peers with its international diversity. North America accounts for 47% of total production and the North Sea 32%. Talisman also has production in Southeast Asia, Trinidad and Tobago and Algeria. This diversity provides the Company with a range of opportunities to grow and add value and lessens the risk associated with operating solely in one area. Talisman has an 11-year track record as a successful international operator.

Talisman has highly trained, experienced exploration staff with world-class expertise in complex structural and carbonate geology. Talisman is an established international operator with expertise in cost effective operations and managing major developments both onshore and offshore. In the UK North Sea, Talisman is one of the largest operators of infrastructure. Talisman also has extensive expertise in reservoir engineering (maximizing recovery from mature fields) and drilling technology (deep horizontal wells, extended-reach drilling) to ensure optimum recovery rates and safe, efficient, low cost drilling operations.

In addition, Talisman has world-class commercial skills. Over the past five years, the Company has concluded approximately \$5 billion worth of corporate and asset acquisitions and sales, both international and domestic.

Talisman is the leading deep gas explorer in Canada. The Company has added more natural gas production at depths below 10,000 feet than any of its competitors. Talisman has added two-to-three times the industry average reserves per new gas discovery. The Company has also pioneered a new deep natural gas play in upstate New York.

In Southeast Asia, Talisman has 2.2 tcf of proved natural gas reserves, underpinning long-term sales contracts. These legacy assets provide a solid base for growth in the region. In Malaysia/Vietnam, Talisman has drilled more wells than any other independent oil and gas company over the past three years.

Talisman played an integral part in the largest oil discovery in Trinidad and Tobago in the past 20 years, with production startup in January 2005. The Company is also producing oil in Algeria.

Talisman has an inventory of high impact exploration opportunities in Alaska, Qatar, Colombia and Peru. Although these drilling opportunities have a relatively high degree of risk associated with them, the potential rewards, in the 50-500 mmbbls range, make them attractive investments for the Company and its shareholders.

The Business Environment

The benchmark WTI crude oil price averaged US\$41.40/bbl in 2004, up from US\$30.99 in 2003 and US\$26.15 in 2002.

Despite current price levels, world oil demand increased by an estimated 2.7 mmbbls/d in 2004, reaching a record high 82 mmbbls/d average for the year. OECD countries only accounted for about one-quarter of the growth, with the majority coming from emerging market economies, in particular China and India.

Non-OPEC production increased by about one mmbbls/d, most of which came from the former Soviet Union and the remainder was supplied by OPEC. As a result, OPEC is running at close to maximum capacity. The lack of surplus crude, combined with political uncertainty in the Middle East and elsewhere, has kept prices at high levels.

NYMEX natural gas prices averaged US\$6.09/mmbtu in 2004, compared to US\$5.44 in 2003 and US\$3.25 in 2002.

Current natural gas prices reflect the inability of US natural gas producers to increase production in recent years. Some estimates show that US natural gas production has fallen by over 5% over the past three years, causing prices to rise to a point where they are rationing demand. US natural gas demand has also fallen by 5%, with most of the decrease occurring in the electrical generation and industrial sectors. In 2004, Canadian natural gas production increased by an estimated 2%.

Talisman netbacks averaged \$24.45/boe in 2004, up from \$22.99 in 2003.

The Canadian dollar strengthened against the US dollar in 2004, gaining approximately 7%. This had the effect of lowering Talisman's reported netbacks, which are shown in Canadian dollars. Most of Talisman's liquids and natural gas sales are priced off US\$ denominated benchmarks.

Unit operating costs were up 4% overall. Increases in Canada and the North Sea were partly offset by the addition of lower cost production elsewhere.

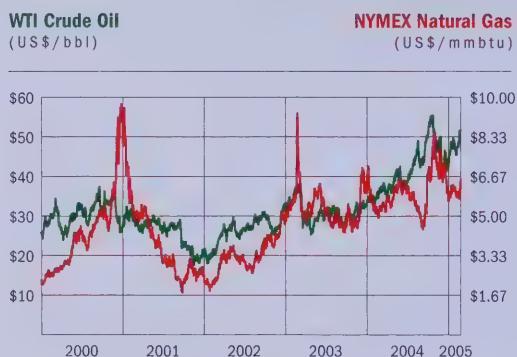
Hedging losses increased to \$3.02/boe in 2004. The Company hedged approximately 22% of its 2004 production volumes. However, only 2% of 2005 production is currently hedged.

Royalty rates were unchanged at 16%.

Detailed information on Talisman's netbacks can be found in Talisman's Annual Report Financial Review.

Netbacks (boe)	2004	2003	2002	2001	2000
Sales price (before hedging)	42.75	38.51	32.89	32.90	34.74
Hedging (gain) loss	3.02	1.34	(0.46)	(0.06)	2.53
Royalty	7.04	6.18	5.74	6.47	6.29
Transportation	1.20	1.26	1.20	—	—
Opex	7.04	6.74	6.06	5.79	5.19
Netback	24.45	22.99	20.35	20.70	20.73

Excludes synthetic



The Bleo Holm FPSO at the Ross/Blake fields.

Financial and Operating Performance



Talisman-operated Edson Gas Plant.

Talisman generated \$2.9 billion in cash flow in 2004

Cash flow totaled \$2.9 billion in 2004 (\$7.65/share) versus \$2.7 billion (\$7.07/share) a year earlier. Gross sales were \$6.9 billion, up \$1.3 billion compared to 2003 on higher volumes and prices. Higher sales revenues were partially offset by higher royalties, operating costs, hedging losses and current taxes. Cash flow is a non-GAAP measure. Please refer to the advisories on the inside back cover.

Net income for 2004 was \$663 million (\$1.77/share), compared to \$1,012 million (\$2.56/share) in 2003. Talisman also calculates net income in accordance with US GAAP. On this basis, earnings were \$694 million in 2004 (\$1.81/share) compared to \$922 million (\$2.39/share) in 2003.

Earnings from operations up 15%

Talisman's earnings from operations in 2004 were \$773 million (\$2.02/share) compared to \$673 million (\$1.74/share) the previous year. Earnings from operations are calculated to help investors understand the Company's core operating performance on a consistent, comparable basis. For example, the sale of Talisman's assets in Sudan and adjustments to tax rates had a significant positive impact on 2003 earnings.

Earnings from operations in 2004 were up, due largely to higher volumes and prices. Offsetting this was higher depreciation, depletion and amortization expense, as well as higher dry hole and exploration costs.

Earnings from operations is a non-GAAP measure. A reconciliation to net income has been provided on the inside back cover.

Liquidity and capital resources

Talisman's long-term debt at year end was \$2.5 billion, down from a total of \$2.6 billion (comprised of long-term debt of \$2.2 billion and preferred securities of \$431 million) at the end of 2003. During 2004, the Company generated \$3.1 billion of cash from operating activities and spent \$2.5 billion on exploration and development while spending \$242 million on acquisitions. Talisman also refinanced its preferred securities, paid dividends of \$114 million and repurchased almost nine million common shares for \$286 million. At year end, the Company had drawn \$328 million of its available \$1,335 million bank lines of credit.

Additional financial information can be found in Talisman's 2004 Annual Report Financial Review, available on our website or by contacting the Company.

Talisman sets production per share record

Production averaged 438,000 boe/d in 2004, an increase of 10%, setting a new record of 0.42 boe per share. The majority of the increase came from a full year of production at the PM-3 CAA project in Malaysia/Vietnam.

	2004	2003	2002
Production (daily average) ¹			
Oil and liquids (bbls/d)			
North America	57,392	59,578	62,676
North Sea	121,861	113,075	127,486
Southeast Asia	35,644	24,430	22,469
Algeria	13,537	6,594	—
Sudan	—	13,039	60,109
Total oil and liquids	228,434	216,716	272,740
Natural gas (mmcf/d)			
North America	885	864	820
North Sea	114	109	122
Southeast Asia	260	117	94
Total natural gas	1,259	1,090	1,036
Total mboe/d	438	398	445
Total mboe/d (net of royalties)	365	334	366

1 Production numbers are before royalties, unless otherwise indicated.



Marketing operations in Calgary.

Oil and liquids production increased by 5% with growth coming from the North Sea (up 8% due to North Tartan startup, Intrepid FCA acquisition and the Galley field acquisition), Southeast Asia (up 46% with a full year of production from PM-3 CAA) and Algeria (up 105% with a full year of production from the MLN field).

Talisman increased its natural gas production by 16%. Production in North America increased 2% with drilling success in the Foothills, west central Alberta and the Northeastern US. Production in Southeast Asia more than doubled. Gas sales in Indonesia averaged 141 mmcf/d (up 26%), reflecting new volumes to Singapore. Gas production from PM-3 CAA in Malaysia/Vietnam, averaged 119 mmcf/d, compared to 5 mmcf/d in 2003.

Talisman replaced 179% of production, a key indicator of future growth

Talisman replaced 179% of production from all sources in 2004 (proved reserves only) and 166% through drilling, including revisions. The Company added 265 mmboe of proved reserves through drilling and development (including net revisions) and 21 mmboe of proved reserves through net acquisitions.

Major contributors to the growth in reserves were 479 bcf of natural gas discoveries, additions and extensions in North America, 85 mmbbls of oil in the North Sea and 695 bcf of natural gas additions in Indonesia, primarily associated with the signing of a major new gas sales contract in August 2004.

As a result, Talisman increased its total proved reserves by 9%, to almost 1.5 billion boe. At year end, Talisman had a reserve life index of 9.3 years for proved reserves and 14 years based on proved and probable reserves. Talisman's net proved reserves increased by 11% to 1.2 billion boe.

Talisman Proved Reserves	Oil & NGLS ¹ (mmbbls)	Natural Gas ¹ (bcf)	BOE ¹ (mm)	Net BOE ² (mm)
Dec 31, 2003	579	4,695	1,362	1,086
Discoveries, additions and extensions	74	1,252	283	204
Net acquisitions	30	(50)	21	24
Revisions	17	(212)	(19)	22
Production	(82)	(462)	(159)	(129)
Total Proved	618	5,223	1,488	1,207
Dec 31, 2004				
Total Probable ³	383	2,624	820	634
Dec 31, 2004				

1 Talisman working interest reserves before royalties payable, plus royalty interests and net profit interests.

2 Talisman working interest net of royalties, plus royalty interests and net profit interests.

3 See "Reserves Data and Other Oil and Gas Information" on the inside back cover.

Approximately 42% of Talisman's proved reserves are high quality oil and liquids and 58% are natural gas. Proved reserves in North America account for 42% of the total, the North Sea 22% and Southeast Asia 30%. At year end, the Company had 820 mmboe of gross probable reserves, which comprise a large part of Talisman's development inventory.

Capital spending during 2004 totaled \$2,375 million for exploration and development, excluding Syncrude and mid-stream expenditures, and \$242 million for net acquisitions. Over the past three years, Talisman has added a total of 623 mmboe of proved reserves (including net acquisitions, but excluding the sale of Sudan assets) while spending \$7,461 million on exploration, development and net acquisitions.

Approximately 90% of Talisman's proved reserves have been independently evaluated over the past three years.

Operating Areas

North America



Drilling the b-60-E well at Monkman.

2004 in review

- Natural gas production averaged 885 mmcf/d, up from 864 mmcf/d in 2003.
- Liquids production averaged 57,392 bbls/d, compared to 59,578 bbls/d in 2003.
- Talisman drilled 444 gross natural gas wells and 137 oil wells (94% success).
- Exploration and development spending was \$1.45 billion. Eighty-three per cent of spending was directed toward natural gas projects.
- The Company added 365 bcf of proved natural gas reserves through drilling, net of revisions. At year end, Talisman had 2.6 tcf of proved gas reserves.
- Conventional operating costs averaged \$5.30/boe, up from \$5.01 in 2003.
- Talisman constructed the first cogeneration facility at a sour gas processing plant in Alberta at Edson. This project will reduce carbon dioxide emissions by 22,000 tonnes a year.
- The Company acquired over 430,000 acres in the Northeastern US, almost doubling its existing acreage.
- Talisman set new production records in the Northeastern US, Alberta Foothills, Deep Basin, Southern Alberta Foothills and Bigstone/Wild River regions.
- The Company drilled another successful Paleozoic gas well (b-60-E) in its core Monkman area. The Company has built a strategic land position in the area.
- Talisman transported and processed record gas volumes through its midstream business.

Talisman is the leading deep gas explorer in Western Canada and the Company has established a new core gas area in the Northeastern US.

Talisman expects its North American operations to continue to generate substantial free cash flow. The Company's strategy is to explore the deeper more prolific parts of the basin. Over the past five years, Talisman has added more deep gas production than any other company in Canada, resulting in higher reserve additions and production per well than its peers. The Company has also built a significant midstream business to facilitate access to markets and generate third-party revenues.

A major new discovery in Northeastern British Columbia

Talisman is repeating history in the Monkman area. On April 7, 1992, Talisman (then BP Canada) announced that the Brazion well, c-59-E/93-P-5 tested at a rate of 85 mmcf/d from the Triassic formation. On November 1, 2004 Talisman announced that a deeper (Paleozoic) well, Brazion b-60-E/93-P-5 had tested at 40 mmcf/d restricted by surface equipment. The well was brought on stream in December at a rate of 66 mmcf/d sales gas (Talisman 80%). This is a major discovery and could be the key to significant new gas finds deep beneath Talisman's existing infrastructure in the Monkman area.

To date, the Triassic play has produced 2 tcf of natural gas. Talisman hopes this deeper play will be as prolific.

2005 outlook

- Exploration and development spending is expected to be \$1.4 billion, with over 90% directed towards natural gas projects.
- Production targets are 920-940 mmcf/d of natural gas and 54,000-56,000 bbls/d of oil and liquids.
- Talisman plans to participate in 525 wells, including 23 in Appalachia, eight in Monkman, 147 in the Edson area and 29 in the Alberta Foothills.
- Talisman plans to spend \$54 million to expand and optimize its operated pipeline systems and associated infrastructure and to build the Lynx pipeline to tie in reserves from the Northern Alberta Foothills.

The North Sea



Talisman-operated Tartan platform.

2004 in review

- Liquids production averaged 121,861 bbls/d, an increase of 8% versus 113,075 bbls/d in 2003.
- Natural gas production averaged 114 mmcf/d, compared to 109 mmcf/d in 2003.
- Exploration and development spending was \$507 million.
- Talisman drilled 20 successful oil and gas wells.
- Talisman added 81 mmboe of proved reserves and had 328 mmboe of proved reserves at year end (86% developed).
- Operating costs averaged \$11.93/boe, up from \$10.22/boe in 2003, due in part to a stronger pound sterling.
- Talisman successfully appraised the Tweedsmuir South discovery.
- Development of the Tweedsmuir and Tweedsmuir South oil fields commenced in August.
- Talisman acquired the Flotta Catchment Area interests of the Intrepid Energy group.
- Production from the Tartan North development commenced ahead of schedule in August.
- Talisman expanded its position in Norway; the Company was awarded five new licenses and also acquired additional exploration acreage.
- Talisman announced plans to construct an offshore wind farm demonstrator project at Beatrice.

In the UK Central North Sea, Talisman has established a number of operated commercial hubs, which provide significant value creation through low risk development, adjacent exploration opportunities, secondary recovery and third-party tariff revenue. Talisman operates the second largest number of oil fields in the UK North Sea.

Talisman is also building a new core area in the Norwegian sector of the Central North Sea. The Central North Sea has large remaining potential with an estimated 42 billion boe yet to find. The Company has a large drilling program under way, designed to increase oil and liquids production 20-25% by 2008.

A new development at Tweedsmuir

On August 26, 2004, Talisman celebrated its tenth anniversary in the North Sea. The Company has grown its production from 30,000 boe/d in 1995 to over 140,000 boe/d.

Talisman also announced development of the \$770 million, 70 mmboe Tweedsmuir and Tweedsmuir South fields, helping to ensure future growth. These fields are expected to start production in late 2006, averaging 45,000 boe/d net to Talisman in 2007.

2005 outlook

- Production targets are 117,000-125,000 bbls/d of oil and liquids and 110-120 mmcf/d of natural gas.
- Development of the Tweedsmuir and Tweedsmuir South oil fields will continue.
- Exploration and development spending is expected to be approximately \$1 billion. The Tweedsmuir development is the primary reason for the increase in spending compared to 2004.
- Talisman plans to participate in up to 10 exploration and 30 development wells.
- In February 2005, Talisman announced the acquisition of all of the outstanding shares of Pertra A.S. in Norway. This includes a 70% interest in the operated Varg oilfield. This acquisition is expected to add approximately 10,000 bbls/d to the 2005 targets set out above.

Southeast Asia



Corridor Gas Plant in Indonesia.

2004 in review

- Natural gas production averaged 260 mmcf/d, an increase of 122%. Liquids production averaged 35,644 bbls/d, an increase of 46%.
- Exploration and development spending totaled \$255 million.
- Talisman drilled 30 exploration and development wells.
- Talisman added 134 mmboe of proved reserves and had 453 mmboe of proved reserves at year end.
- In Indonesia, an agreement was signed for the sale of 2.3 tcf of natural gas from the Corridor PSC to PT Perusahaan Gas Negara (Persero), Tbk. ("PGN"), the Indonesian national gas transmission and distribution company. Talisman's share is 36%. This gas sales agreement will result in PGN building a major pipeline linking the island of Sumatra to major gas markets in West Java.
- The PGN gas sales agreement underpins further development of the Suban field and the expansion of the gas production and processing facilities, which commenced in August.
- Talisman signed a PSC for Block PM-314 offshore Malaysia in the highly prospective Malay Basin and the initial seismic program has been completed.
- The Tanjung enhanced oil recovery contract expired in November and the Jambi enhanced oil recovery contract expired in early 2005. Talisman's non-operated interest in the Madura PSC was sold in December.

Talisman has more than doubled its production in Southeast Asia over the past two years and expects to continue production growth from existing projects to the end of the decade. Southeast Asia was Talisman's lowest operating cost area in 2004.

In Indonesia, Talisman continues to develop its large natural gas reserves in the Corridor Block. A major new gas sales contract was signed during the year.

In Malaysia and Vietnam, the PM-3 CAA project performed above expectations producing 42,000 boe/d (net Talisman) during its first full year of operations. Development of the South Angsi field is continuing according to plan.

2005 outlook

- Production targets are 255-285 mmcf/d of natural gas and 33,000-37,000 bbls/d of oil and liquids.
- Exploration and development spending is expected to be \$310 million.
- In Indonesia, the Suban Phase 2 gas expansion project in the Corridor PSC will continue, including the installation of two new gas trains, additional pipelines and infrastructure.
- The Company continues to look for additional markets for its large remaining uncontracted Corridor gas reserves.
- In Malaysia, the South Angsi field is expected to come onstream in mid-2005 with an estimated 6,500 bbls/d of production in 2005 and 12,000 bbls/d in 2006.
- In Malaysia/Vietnam, the Company expects to start development of the northern fields in PM-3 CAA.
- Talisman is planning to drill up to 26 exploration and development wells in Southeast Asia.

A fast track, low cost development strategy for South Angsi

Development of the South Angsi field in Block PM-305 is a good illustration of Talisman's fast track, shallow water, oil exploration and development strategy in Southeast Asia. The initial discovery was made in April 2003, the jacket was installed in October 2004 and first production is expected in mid-2005.

Other International and Frontier Areas



The Greater Angostura project.

Although North America, the North Sea and Southeast Asia accounted for 97% of Talisman's production in 2004, the Company continues to look for development opportunities where it can apply its international skills. Talisman is also active in a number of high risk, high reward exploration plays, utilizing its expertise in structurally complex geological settings.

Algeria

Talisman has a 35% non-operated interest in the Greater MLN project in Block 405a located in eastern Algeria. In addition, the Company has a 2% interest in the unitized Ourhoud field. Liquids production in 2004 averaged 13,537 bbls/d, compared to 6,594 bbls/d in 2003, mainly as a result of a full year of production from Greater MLN.

In 2005, Talisman plans capital spending of approximately \$55 million, which includes drilling 14 development wells. Talisman is also planning development of the MLSE complex.

Talisman's share of production is expected to average between 15,000-17,000 bbls/d in 2005.

Trinidad and Tobago

Talisman has a 25% non-operated interest in the Greater Angostura project, a major oil and gas development in Block 2(c) offshore Trinidad. During 2004, a central processing platform, three wellhead platforms, export pipeline and new terminal facilities were installed. Field development is now complete and first oil production from the platform was announced in January 2005.

The production target for 2005 is 12,000-16,000 bbls/d of oil and plans include further exploration and development drilling.

Onshore, Talisman completed a major 3D seismic acquisition program on the Eastern Block. Seismic data is being interpreted to define a drilling program, which will commence in 2005.

Total capital spending in 2005 is estimated to be approximately \$100 million, which includes participation in eight development and up to eight exploration and appraisal wells.

Alaska

The Company has developed a strategic land base in Alaska, on trend with a number of very large oil discoveries and now holds nearly 450,000 acres of exploration lands.

Colombia

In Colombia, Talisman has non-operated interests in various blocks. In mid-2004, the Company began drilling the Tangara-1 exploration well (Talisman 30%) on the Tangara block. The well is expected to drill until approximately the end of the first quarter of 2005.

Talisman's 2005 capital spending program in Colombia is expected to be \$8 million.

Peru

In Peru, Talisman acquired a 25% non-operated interest in Block 64 in the Marañon basin. An exploration well drilled in 2004 encountered drilling problems and was unable to reach the target formation.

The Company's 2005 capital spending program is expected to be \$13 million, primarily to fund drilling a second exploration well, which spud in early 2005.

Qatar

Talisman holds a 100% interest in Block 10 offshore Qatar. During 2004, the Company completed 3D seismic acquisition. Interpretation of the seismic data is under way and is expected to lead to the drilling of an exploration well in October 2005.

Talisman's 2005 capital spending program for Qatar is \$15 million.

An Experienced Management Team



James W. Buckee was appointed President and Chief Executive Officer of Talisman Energy Inc. (formerly BP Canada Inc.) in May 1993. Dr. Buckee has been with the Company and its predecessor for 28 years and is responsible for leading the development and execution of the Company's long-term strategy with a view to creating shareholder value.



Michael D. McDonald is Executive Vice-President, Finance and Chief Financial Officer. Mr. McDonald has 23 years experience with the Company and has held positions of progressively increasing responsibility in the Company. He is currently responsible for the Company's global Financial Reporting, Treasury, Tax and Accounting functions.



Ronald J. Eckhardt is Executive Vice-President, North American Operations. Mr. Eckhardt has 19 years' experience with the Company and is responsible for all of Talisman's development and production operations in Canada and the lower 48 states.



Robert M. Redgate is Executive Vice-President, Corporate Services. Mr. Redgate has been with the Company for 27 years. His responsibilities include Information Systems, Materials and Contracts, Health, Safety and Environmental Affairs, Security, Facilities Administration and Human Resources.



T. Nigel D. Hares is Executive Vice-President, Frontier and International Operations. Over the past 10 years, Mr. Hares has led Talisman's international operations making the company the largest Canadian based international producer.



M. Jacqueline Sheppard is Executive Vice-President, Corporate and Legal, and Corporate Secretary. Ms. Sheppard joined Talisman in 1993 and is responsible for the Company's worldwide legal affairs, corporate projects and acquisitions and is Secretary to the Board. Corporate Communications, Investor Relations and Corporate Social Responsibility are also her responsibilities.



Joseph E. Horler is Executive Vice-President, Marketing. Mr. Horler has been with the Company for 18 years and is responsible for marketing Talisman's global natural gas, crude oil, sulphur and natural gas liquids production.



John 't Hart is Executive Vice-President, Exploration. He joined the Company in 1978. Dr. 't Hart is responsible for Talisman's global exploration program.

Corporate Governance



Talisman has a firm commitment to sound principles of corporate governance.

Talisman's corporate governance practices satisfy all the existing guidelines for effective corporate governance established by the Toronto Stock Exchange ("TSX"), all of the New York Stock Exchange ("NYSE") corporate governance listing standards applicable to non-US companies and substantially all of the NYSE corporate governance listing standards applicable to US companies. Talisman's corporate governance practices also satisfy the proposed Canadian corporate governance and best practices rules.

Board of Directors

Talisman's Board of Directors sees its principal role as stewardship of the Company and its fundamental objective as the creation of shareholder value, including the protection and enhancement of the value of the Company's assets. The Board oversees the conduct of the business and management, which is responsible for developing long-term strategy and conducting the Company's day-to-day business.

Among its duties, the Board ensures systems are in place to manage the risks and through the Chief Executive Officer, sets the attitude and disposition of the Company towards regulatory compliance, environmental, safety and health policies, financial practices and reporting.

Independence of the Board

In full compliance with the TSX recommendations and the NYSE corporate governance listing standards, all members of Talisman's Board are unrelated and independent of management, except for the President and Chief Executive Officer. The composition of the Board, including the independence of the Chairman and his specified role, ensures that Talisman's Board has appropriate structures and procedures in place to ensure that the Board can function independently of management. All committees of the Board of Directors are composed entirely of unrelated, independent directors with the exception of the Executive Committee and the Pension Funds Committee, the majority of whose members are unrelated and independent.

Stock exchange and regulatory compliance

With respect to the NYSE corporate governance listing standards, Talisman's corporate governance practices differ significantly in only two respects from those applicable to US companies. First, the NYSE listing standards require that the Audit Committee charter specify that the Audit Committee assist the Board of Directors in its oversight of Talisman's compliance with legal and regulatory requirements. Talisman's Board oversees Talisman's compliance with legal and

Corporate Governance at Talisman

A full description of Talisman's approach to corporate governance can be found in Schedule A to the Company's 2005 Management Proxy Circular.

Mandates of Talisman's Board, its committees, the Chairman and the Chief Executive Officer may be obtained from the Company website at www.talisman-energy.com.

regulatory requirements and this responsibility is included in the Board's Terms of Reference. Each of the Board committees assists the Board in its oversight of Talisman's compliance with legal and regulatory requirements in each of their areas of responsibility. Secondly, the NYSE listing standards require shareholder approval of all equity compensation plans and any material revisions to such plans, regardless of whether the securities to be delivered under such plans are newly issued or purchased on the open market, subject to a few limited exceptions. In contrast, the TSX rules require shareholder approval of equity compensation plans only when such plans involve newly issued securities. Equity compensation plans that do not provide for a fixed maximum number of securities to be issued must have a rolling maximum number of securities to be issued based on a fixed percentage of the issuer's outstanding securities and must also be approved by shareholders every three years. If the plan provides a procedure for its amendment, the TSX rules require shareholder approval of amendments only where the amendment involves a reduction in the exercise price or an extension of the term of options held by insiders.

Talisman either satisfies the requirements of the Multilateral Instrument 58-101 and Multilateral Policy 58-102 as published on October 29, 2004, or has implemented procedures designed to meet the same governance objectives.

Talisman's Compliance

A list of the existing TSX corporate governance guidelines is set out below. Talisman complies with each guideline.

TSX Corporate Governance Guidelines

- ✓ 1 The Board should assume responsibility for the stewardship of the Company, explicitly for:
 - ✓ (a) adoption of a strategic planning process;
 - ✓ (b) identification of the principal risks of the Company's business and ensuring implementation of appropriate systems to manage these risks;
 - ✓ (c) succession planning, including appointing, training and monitoring senior management;
 - ✓ (d) a communications policy; and
 - ✓ (e) the integrity of the Company's internal control and management information systems.
- ✓ 2 A majority of the Company's Directors should be unrelated.
- ✓ 3 The Board has responsibility to apply to each individual Director, the definition of "unrelated Director", disclosing on an annual basis the analysis of the application of the principles supporting this conclusion.
- ✓ 4 The Board of every Company should appoint a committee of Directors composed exclusively of outside, i.e., non-management Directors, a majority of whom are unrelated Directors, with the responsibility for proposing to the Board new nominees to the Board and for assessing Directors on an ongoing basis.
- ✓ 5 Every Board of Directors should implement a process to be carried out by the nominating committee or other appropriate committee, for assessing the effectiveness of the Board as a whole, its Committees and the contribution of individual Directors.
- ✓ 6 The Company should provide an orientation and education program for new Board members.
- ✓ 7 The Board should examine its size and undertake where appropriate, a program to reduce the number of Directors to a number which facilitates more effective decision-making.
- ✓ 8 The Board should review the adequacy and form of the compensation of Directors and ensure the compensation realistically reflects the responsibilities and risk involved in being an effective director.
- ✓ 9 Committees of the Board of Directors should generally be composed of outside Directors, a majority of whom are unrelated Directors, although some Board committees may include one or more inside Directors.
- ✓ 10 The Board should assume responsibility for, or assign to a committee of Directors, the general responsibility for developing the Company's approach to governance issues. This Committee would, amongst other things, be responsible for the Company's response to these governance guidelines.
- ✓ 11 The Board, together with the CEO, should develop position descriptions for the Board and for the CEO, involving the definition of the limits to management's responsibilities. In addition, the Board should approve or develop the corporate objectives that the CEO is responsible for meeting.
- ✓ 12 The Board of Directors should have in place appropriate structures and procedures to ensure that it can function independently of management. An appropriate structure would be to (i) appoint a chair of the Board who is not a member of management with responsibility to ensure the Board discharges its responsibilities or (ii) adopt alternate means such as assigning this responsibility to a committee of the Board or to a Director, sometimes referred to as the "lead Director". Appropriate procedures may involve the Board meeting on a regular basis without management present or may involve expressly assigning the responsibility for administering the Board's relationship to management to a committee of the Board.
- ✓ 13 The Audit Committee should be composed only of outside Directors. The roles and responsibilities of the Audit Committee should be specifically defined so as to provide appropriate guidance to Audit Committee members as to their duties. The Audit Committee should have a direct communication channel with the internal and external auditors to discuss and review specific issues as appropriate. The Audit Committee duties should include oversight responsibility for management reporting on internal controls. Although it is management's responsibility to design and implement an effective system of internal controls, it is the responsibility of the Audit Committee to ensure that management has done so.
- ✓ 14 The Board should implement a system that enables an individual Director to engage an outside adviser at the Company's expense in appropriate circumstances. The engagement of the outside advisor should be subject to the approval of an appropriate Committee of the Board.

Credentials. Corporate Responsibility. Sustainable Value Creation.

Talisman maintains high standards in the areas of ethical business conduct, environmental practices and community relations.

At Talisman, the business case for corporate responsibility is clear. Acting responsibly helps the Company avoid risk, improves employee recruitment and retention, creates business opportunities and increases access to capital. We call it sustainable value creation. We think our corporate responsibility **Credentials** speak for themselves. We invite you to read our 2004 Corporate Responsibility Report.

2004 ACCOMPLISHMENTS

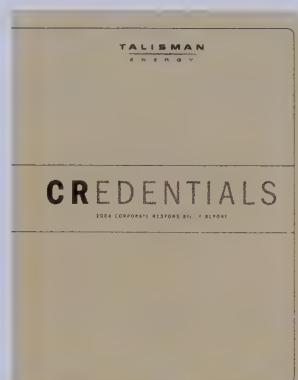
Social Performance

- Confirmed participation in the UN Global Compact.
- Worked with approximately 45,000 Canadian stakeholders, regarding more than 1,345 projects.
- Revised our Security Policy based on the Voluntary Principles on Human Rights and Security.
- Continued refinement of our new project risk assessment process.
- Signed a Memorandum of Understanding with the United Nations Development Program in Trinidad.



Health, Safety and Environmental Performance

- Recorded no fatalities, life-threatening occupational injuries or major environmental incidents at Talisman-operated facilities.
- Constructed a cogeneration facility in Edson, Alberta and began development of an offshore wind farm demonstrator project in the North Sea.
- Continued our ongoing program of routine HSE audits and reviews at Talisman operations worldwide.
- Completed formal Environmental Impact Assessments in support of proposed projects in Trinidad, the UK, Malaysia/Vietnam and the US.
- Received Gold Award from Scotland's Health at Work program, recognizing Talisman (UK)'s commitment to promoting a healthy lifestyle amongst its workers.



You can view Talisman's Corporate Responsibility Report on its website, www.talisman-energy.com or write, phone or email Talisman's executive office in Calgary.

Consolidated Balance Sheets

(unaudited)

(As at December 31)

All financial data should be read in conjunction with the audited Consolidated Financial Statements of the Company contained in the 2004 Annual Report Financial Review.

(millions of Canadian dollars)	2004	2003
Assets		(restated) ¹
Cash and cash equivalents	38	98
Accounts receivable	836	760
Inventories	78	100
Prepaid expenses	18	17
	970	975
Accrued employee pension benefit asset	61	63
Other assets	64	76
Goodwill	466	473
Property, plant and equipment	10,847	10,193
	11,438	10,805
Total assets	12,408	11,780
Liabilities		
Current		
Accounts payable and accrued liabilities	1,302	1,064
Income and other taxes payable	341	154
	1,643	1,218
Deferred credits	105	57
Asset retirement obligations	1,272	1,157
Long-term debt	2,457	2,203
Future income taxes	2,100	2,127
	5,934	5,544
Contingencies and commitments		
Shareholders' equity		
Preferred securities	—	431
Common shares	2,666	2,725
Contributed surplus	71	73
Cumulative foreign currency translation	(150)	(114)
Retained earnings	2,244	1,903
	4,831	5,018
Total liabilities and shareholders' equity	12,408	11,780

¹ Prior years numbers have been restated to reflect changes in accounting policies adopted in 2004.

Talisman's 2004 Annual Report Financial Review contains the detailed Management's Discussion and Analysis, Consolidated Financial Statements and Notes, and Supplementary Information and can be obtained from the Company or viewed online at www.talisman-energy.com.

Consolidated Statements of Income

(unaudited)

(Years ended December 31)

All financial data should be read in conjunction with the audited Consolidated Financial Statements of the Company contained in the 2004 Annual Report Financial Review.

(millions of Canadian dollars)	2004	2003	2002
Revenue		(restated) ¹	(restated) ¹
Gross sales	6,874	5,610	5,351
Less hedging loss (gain)	480	194	(75)
Gross sales net of hedging	6,394	5,416	5,426
Less royalties	1,124	894	927
Net sales	5,270	4,522	4,499
Other	85	76	80
Total revenue	5,355	4,598	4,579
Expenses			
Operating	1,198	1,039	1,048
Transportation	192	181	194
General and administrative	183	152	138
Depreciation, depletion and amortization	1,650	1,435	1,462
Dry hole	311	251	174
Exploration	238	213	185
Interest on long-term debt	158	137	164
Stock-based compensation	171	185	—
Other	89	16	113
Total expenses	4,190	3,609	3,478
Gain on sale of Sudan operations	—	296	—
Income before taxes	1,165	1,285	1,101
Taxes			
Current income tax	478	229	258
Future income tax (recovery)	(105)	(48)	175
Petroleum revenue tax	129	92	124
	502	273	557
Net income	663	1,012	544
Per common share (Canadian dollars)			
Net income	1.77	2.56	1.29
Diluted net income	1.74	2.53	1.27
Average number of common shares outstanding (millions)	383	386	402
Diluted number of common shares outstanding (millions)	390	391	409

1 Prior years numbers have been restated to reflect changes in accounting policies adopted in 2004.

Consolidated Statements of Cash Flows

(unaudited)

(Years ended December 31)

All financial data should be read in conjunction with the audited Consolidated Financial Statements of the Company contained in the 2004 Annual Report Financial Review.

(millions of Canadian dollars)	2004	2003	2002
Operating			
Net income	663	1,012	544
Items not involving current cash flow	2,030	1,504	1,916
Exploration	238	213	185
Cash flow	2,931	2,729	2,645
Deferred gain on unwound hedges	—	(9)	(43)
Changes in non-cash working capital	203	(128)	(187)
Cash provided by operating activities	3,134	2,592	2,415
Investing			
Capital expenditures			
Exploration, development and corporate	(2,565)	(2,218)	(1,874)
Acquisitions	(317)	(661)	(244)
Proceeds of resource property dispositions	75	1,075	30
Investments	—	(11)	(36)
Changes in non-cash working capital	50	105	26
Cash used in investing activities	(2,757)	(1,710)	(2,098)
Financing			
Long-term debt repaid	(667)	(791)	(1,397)
Long-term debt issued	912	292	1,417
Common shares purchased (net of proceeds on shares issued)	(284)	(184)	(184)
Common share dividends	(114)	(90)	(80)
Preferred securities redeemed	(402)	—	—
Preferred security charges	(15)	(38)	(42)
Deferred credits and other	164	28	(21)
Changes in non-cash working capital	(10)	—	—
Cash used in financing activities	(416)	(783)	(307)
Effect of translation on foreign currency cash	(21)	(28)	—
Net (decrease) increase in cash and cash equivalents	(60)	71	10
Cash and cash equivalents, beginning of year	98	27	17
Cash and cash equivalents, end of year	38	98	27

¹ Prior years numbers have been restated to reflect changes in accounting policies adopted in 2004.

Historical Financial Summary

(millions of Canadian dollars unless otherwise stated)

All financial data should be read in conjunction with the audited Consolidated Financial Statements of the Company contained in the 2004 Annual Report Financial Review.

		(restated)								
Years ended December 31	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Balance Sheets										
Total assets	12,408	11,780	12,017	11,228	9,028	8,186	5,556	5,195	3,961	3,103
Income Statements										
Total revenue	5,355	4,598	4,579	4,140	3,989	1,975	1,371	1,430	1,213	899
Total expenses	4,190	3,609	3,478	2,814	2,402	1,513	1,751	1,239	953	805
Gain on sale of Sudan operations	—	296	—	—	—	—	—	—	—	—
Income (loss) before taxes	1,165	1,285	1,101	1,326	1,587	462	(380)	191	260	94
Taxes										
Current income tax	478	229	258	342	334	49	15	38	51	11
Future income tax (recovery)	(105)	(48)	175	84	216	116	(93)	64	82	48
Petroleum revenue tax	129	92	124	149	150	31	20	32	35	
	502	273	557	575	700	196	(58)	134	168	59
Net income (loss)	663	1,012	544	751	887	266	(322)	57	92	35
Preferred security charges, net of tax	(9)	(22)	(24)	(24)	(22)	(13)	—	—	—	—
Gain on redemption of preferred securities	23	—	—	—	—	—	—	—	—	—
Income from discontinued operations	—	—	—	—	—	—	—	—	—	6
Net income (loss) available to common shareholders	677	990	520	727	865	253	(322)	57	92	41

Historical Operations Summary

		(restated)								
Years ended December 31	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Daily Average Production										
Total oil and liquids (bbls/d)	228,434	216,716	272,740	251,014	244,351	158,323	146,749	130,177	99,960	77,542
Total natural gas (mmcf/d)	1,259	1,090	1,036	1,010	988	904	748	658	647	650
Total (mboe/d)	438	398	445	419	409	309	271	240	208	186
Production (boe/share)	0.42	0.38	0.40	0.38	0.36	0.30	0.29	0.27	0.24	0.23
Proved reserves (boe/share)	4.0	3.5	3.8	3.7	2.9	2.6	2.5	2.3	1.9	1.7

Ratios and Key Indicators

(millions of Canadian dollars)

		(restated)								
Years ended December 31	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Net income (loss)	663	1,012	544	751	887	266	(322)	57	92	35
Cash flow ¹	2,931	2,729	2,645	2,494	2,413	1,111	631	797	697	502
Exploration and development spending	2,538	2,180	1,848	1,882	1,179	996	1,145	951	557	379
Net acquisitions and (dispositions)	242	668	204	139	350	349	(92)	55	161	7
Debt/debt+equity (%)	34	31	40	42	32	38	50	45	30	36
Debt/cash flow (times)	0.84	0.81	1.13	1.20	0.72	1.98	3.31	2.18	1.29	1.80
Per common share										
Net income (loss) (\$)	1.77	2.56	1.29	1.80	2.09	0.67	(0.96)	0.17	0.30	0.14
Cash flow (\$) ¹	7.65	7.07	6.58	6.16	5.84	2.97	1.88	2.43	2.24	1.73
Average royalty rate (%)	16	16	17	20	18	16	14	18	16	14
Unit operating costs (\$/boe)	7.04	6.74	6.06	5.79	5.19	5.14	5.61	5.24	3.78	3.42
Unit DD&A (\$/boe)	10.29	9.87	8.99	8.39	7.37	7.54	6.03	6.08	5.60	5.52

¹ Non-GAAP measure.

See advisories on inside back cover.

Additional Information

Accounting Principles Generally Accepted in the United States

Talisman's Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") which, in most respects, conform to accounting principles generally accepted in the United States ("US GAAP"). A summary of the significant differences between Canadian and US GAAP are as follows:

Net income in accordance with US GAAP:

Years ended December 31 (millions of Canadian dollars, unless otherwise stated)	2004	2003 (restated)	2002 (restated)
Net income – Canadian GAAP	663	1,012	544
Reconciling items between Canadian and US GAAP	31	(473)	(459)
Income from continuing operations	694	539	85
Results of discontinued operations, net of tax	—	330	237
Income before cumulative effect of changes in accounting principles	694	869	322
Cumulative effect of changes in accounting principles, net of tax	—	53	—
Net income – US GAAP	694	922	322
Net Income per common share (Canadian dollars)			
Basic	1.81	2.39	0.80
Diluted	1.78	2.36	0.79

Comprehensive income in accordance with US GAAP:

Years ended December 31 (millions of Canadian dollars)	2004	2003	2002
Net income – US GAAP	694	922	322
Other comprehensive income, net of tax:			
Foreign exchange gain on translation of self-sustaining operations	288	650	170
Change in fair value of financial instrument	(40)	—	—
Comprehensive income – US GAAP	942	1,572	492

Balance sheet items in accordance with US GAAP are as follows

December 31, (millions of Canadian dollars)	Canadian GAAP	US GAAP	Canadian GAAP (restated)	US GAAP
Total liabilities and shareholders' equity	12,408	12,649	11,780	12,120

Net Production (after royalties)

	2004	2003	2002	2001	2000
Crude oil and liquids (bbls/d)					
North America	43,303	45,035	47,182	49,145	49,018
North Sea	120,768	113,291	122,231	105,138	107,554
Southeast Asia	20,884	14,853	14,025	14,667	13,853
Algeria	8,338	3,351	—	—	—
Sudan	—	6,997	36,346	32,422	28,001
Total oil and liquids	193,293	183,527	219,784	201,372	198,426
Natural gas (mmcf/d)					
North America	715	678	665	608	582
North Sea	105	103	107	97	117
Southeast Asia	194	110	89	89	104
Total natural gas	1,014	891	861	794	803
Total conventional (mboe/d)	362	332	363	334	332
Synthetic Oil (Canada)(mboe/d)	2.9	2.5	2.8	2.4	1.9
Total (mboe/d)	365	334	366	337	335

Directors and Executive

Board of Directors

Douglas D. Baldwin^{2,3,4,6}

Calgary, Alberta, Canada

Chairman, Talisman Energy Inc.

James W. Buckee^{2,5}

Calgary, Alberta, Canada

President and Chief Executive Officer
Talisman Energy Inc.

Kevin S. Dunne^{3,5,6}

Tortola, British Virgin Islands

Corporate Director

Al L. Flood, C.M.^{1,4}

Thornhill, Ontario, Canada

Corporate Director

Dale G. Parker^{1,5}

Vancouver, British Columbia, Canada

Public Administration and Financial
Institution Advisor

Lawrence G. Tapp^{3,4}

Langley, British Columbia, Canada

Chairman, ATS Automation

Tooling Systems Inc.

Stella M. Thompson^{2,4,5}

Calgary, Alberta, Canada

Principal, Governance West Inc.
President, Stellar Energy Ltd.

Robert G. Welty^{1,3}

Calgary, Alberta, Canada

Chairman, Chief Executive
Officer and Director
Sterling Resources Ltd.

Charles W. Wilson^{1,2,6}

Evergreen, Colorado, United States

Corporate Director

- 1 Member of Audit Committee
- 2 Member of Executive Committee
- 3 Member of Governance and Nominating Committee
- 4 Member of Management Succession and Compensation Committee
- 5 Member of Pension Funds Committee
- 6 Member of Reserves Committee

Executive

James W. Buckee

President and Chief Executive Officer

Ronald J. Eckhardt

Executive Vice-President,
North American Operations

T. Nigel D. Hares

Executive Vice-President,
Frontier and International Operations

Joseph E. Horler

Executive Vice-President, Marketing

Michael D. McDonald

Executive Vice-President, Finance
and Chief Financial Officer

Robert M. Redgate

Executive Vice-President,
Corporate Services

M. Jacqueline Sheppard

Executive Vice-President, Corporate
and Legal, and Corporate Secretary

John 't Hart

Executive Vice-President, Exploration

Corporate Information

Executive Office

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Scotland

Telephone: 44 (1224) 352-500

Faxsimile: 44 (1224) 353-400

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Faxsimile: 62 (21) 521-0660

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Menara Citibank

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Atrium Bldg c/o Regus Centre

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Faxsimile: 31 20301 2317

Talisman (Trinidad) Petroleum Ltd.

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Trinidad, West Indies

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Faxsimile: (868) 624-7999

Talisman Energy (Qatar) Inc.

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Al Jaber Tower

Museum Street

Doha, Qatar

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Faxsimile: (974) 435-0980

Fortuna Energy Inc.

203 Colonial Drive

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Faxsimile: (607) 795-2701

Investor Relations Contacts

M. Jacqueline Sheppard

Executive Vice-President,
Corporate and Legal,
and Corporate Secretary
(403) 237-1183

David W. Mann

Senior Manager, Corporate and
Investor Communications
(403) 237-1196

Christopher LeGallais

Manager, Investor Relations
(403) 237-1957

Investor Information

Common Shares

Transfer agent: Computershare Trust Company of Canada
Calgary, Toronto, Montreal, Vancouver

Co-transfer agent: Computershare Trust Company Inc.

Authorized: Unlimited number of common shares and unlimited number of first and second preferred shares

Issued: 375,185,290 common shares at December 31, 2004

Stock Exchange Listings

Common Shares

Symbol: **TLM**
Canada: Toronto Stock Exchange
United States: New York Stock Exchange

Public Debt

Trustee: Computershare Trust Company of Canada

7.125% (US\$) unsecured debentures

7.25% (US\$) unsecured debentures

8.06% unsecured medium term notes

5.80% unsecured medium term notes

Trustee: JP Morgan Chase, London Branch

6.625% (£) unsecured notes

Talisman's public long-term debt is currently rated as:

Dominion Bond Rating Service – BBB (high);

Moody's – Baa1;

S&P – BBB+

Private Debt

6.96% (US\$) unsecured notes
6.89% (US\$) unsecured notes, Series B
6.68% (US\$) unsecured notes

Dividends

In 2004, the Company paid semi-annual dividends in June and December each in the amount of \$0.15 per common share (on a post share split basis). Talisman's dividend policy is reviewed semi-annually by the Board of Directors.

Annual Meeting

The annual meeting of shareholders of Talisman Energy Inc. will be held at 10:30 a.m. on Tuesday, May 3, 2005 in the Exhibition Hall, North Building of the Telus Convention Center, 136 Eighth Avenue S.E., Calgary, Alberta. Shareholders are encouraged to attend the meeting, but those who are unable to do so are requested to participate by voting, using one of the three available methods: (i) by telephone, (ii) by internet, or (iii) by signing and returning the form of proxy or voting instruction form mailed with the management proxy circular.

Market Information

Common Shares¹

		2004		2003		2002	
		TSX (C\$)	NYSE (US\$)	TSX (C\$)	NYSE (US\$)	TSX (C\$)	NYSE (US\$)
Share Price (dollars)	High	35.10	28.66	24.60	18.99	23.36	15.23
	Low	23.68	17.64	18.37	11.77	17.10	10.70
	Close	32.35	26.96	24.51	18.87	18.95	12.06
Shares Traded (millions)	First quarter	86.2	23.4	114.9	30.3	79.2	23.7
	Second quarter	81.9	27.4	78.6	24.9	84.0	25.8
	Third quarter	81.3	19.2	71.4	23.7	89.1	32.4
	Fourth quarter	99.9	20.7	79.8	25.8	153.9	46.2
	Year	349.3	90.7	344.7	104.7	406.2	128.1
Year end shares outstanding (millions)		375		384		393	
Weighted average shares outstanding (millions)		383		386		402	
Year end stock options outstanding (millions)		20.8		23.6		22.2	

1 Talisman divided its common shares on a 3:1 basis in May 2004.

All of the historical share numbers have been restated for comparability

Advisory – Forward-Looking Statements

This Annual Report Summary contains statements that constitute forward-looking statements within the meaning of applicable securities legislation.

Identifying Forward-Looking Statements

Forward-looking statements are included throughout this Annual Report Summary, including among other places, under the headings "A Premium Investment", "A Very Strong Year in 2004", "A Discussion with Dr. Jim Buckee", "The Business Environment", "A Well Executed and Consistent Strategy", "Talisman's Key Targets in 2005", "Financial and Operating Performance", and "Operating Areas". These statements include, among others, statements regarding:

- anticipated cash flow and cash flow per share;
- estimates of future sales, production and operations or financial performance;
- business plans for drilling, exploration and development;
- the estimated amounts and timing of capital expenditures;
- estimates of drilling and operating costs;
- business strategy and plans or budgets;
- outlook for oil and gas prices;
- anticipated liquidity, capital resources and debt levels;
- royalty rates and exchange rates;
- the merits or anticipated outcome of pending litigation; and
- other expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, results or operations or performance.

Statements concerning oil and gas reserves contained in this Annual Report Summary may be deemed to be forward-looking statements as they involve the implied assessment that the resources described can be profitably produced in the future, based on certain estimates and assumptions.

Often, but not always, forward-looking statements use words or phrases such as: "expects", "does not expect" or "is expected", "anticipates" or "does not anticipate", "plans" or "planned", "estimates" or "estimated", "projects" or "projected", "forecasts" or "forecasted", "believes", "intends", "likely", "possible", "probable", "scheduled" "positioned", "goal", "objective" or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

Material factors that could cause actual results to differ materially from those in forward-looking statements

Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated by Talisman and described in the forward-looking statements. These risks and uncertainties include:

- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas, and market demand;
- risks and uncertainties involving geology of oil and gas deposits;
- the uncertainty of reserves estimates and reserves life;
- the uncertainty of estimates and projections relating to production, costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing;
- uncertainties related to the litigation process, such as possible discovery of new evidence or acceptance of novel legal theories and difficulties in predicting the decisions of judges and juries;
- risks in conducting foreign operations (for example, political and fiscal instability or the possibility of civil unrest or military action);
- general economic conditions;
- the effect of acts of, or actions against international terrorism; and
- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld.

We caution that the foregoing list of risks and uncertainties is not exhaustive. Additional information on these and other factors which could affect the Company's operations or financial results are included: (1) under the headings "Management's Discussion and Analysis - Risks and Uncertainties" and "Outlook for 2005" and elsewhere in the Company's 2004 Annual Report Financial Review; and, (2) under the heading "Risk Factors" in the Company's Annual Information Form for the year ended December 31, 2004. Additional information may also be found in the Company's other reports on file with Canadian securities regulatory authorities and the United States Securities and Exchange Commission.

No obligation to update forward-looking statements

Forward-looking statements are based on the estimates and opinions of the Company's management at the time the statements are made. The Company assumes no obligation to update forward-looking statements should circumstances or management's estimates or opinions change.

Abbreviations and Definitions

API	American Petroleum Institute
bbls	barrels
bbls/d	barrels per day
bcf	billion cubic feet
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
C\$	Canadian dollars
FPSO	Floating Production, Storage and Offloading Vessel
LNG	Liquid Natural Gas
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmbls	million barrels
mmboe	million barrels of oil equivalent
mmcf/d	million cubic feet per day
mmbtu	million British thermal units
mmcf	million cubic feet
Moody's	Moody's Investor Service
NYMEX	New York Mercantile Exchange
OECD	Organization of Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
PSC	Production Sharing Contract
S&P	Standard & Poor's Ratings Group
tcf	trillion cubic feet
TSX	Toronto Stock Exchange
UK	United Kingdom
UN	United Nations
US	United States of America
US\$	United States dollar
WTI	West Texas Intermediate
£	Pounds sterling

Natural gas is converted to oil equivalent at the ratio of six mcf to one boe. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6:1 is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Gross acres means the total number of acres in which Talisman has a working interest. Net acres means the sum of the fractional working interests owned in gross acres expressed as whole numbers and fractions thereof.

Gross production means Talisman's interest in production volumes (through working interests, royalty interests and net profits interests) before the deduction of royalties. Net production means Talisman's interest in production volumes after deduction of royalties payable by Talisman.

Gross wells means the total number of wells in which the Company has a working interest. Net wells means sum of the fractional working interest owned in gross wells expressed as whole numbers and fractions thereof.

Conversion & Equivalency Factors

Imperial	Metric
1 ton	= 0.907 tonnes
1 acre	= 0.40 hectares
1 barrel	= 0.159 cubic metres
1 cubic foot	= 0.0282 cubic metres

Advisory – Reserves Data and Other Oil and Gas Information

Talisman's disclosure of reserves data and other oil and gas information is made in reliance on an exemption granted to Talisman by Canadian securities regulatory authorities, which permits Talisman to provide disclosure in accordance with US disclosure requirements. The information provided by Talisman may differ from the corresponding information prepared in accordance with Canadian disclosure standards under National Instrument 51-101 (NI 51-101). Talisman's proved reserves have been calculated using the standards contained in Regulation S-X of the U.S. Securities and Exchange Commission. U.S. practice is to disclose net proved reserves after deduction of estimated royalty burdens, including net profits interests. Talisman makes additional voluntary disclosure of gross proved reserves. Probable reserves, which Talisman also discloses voluntarily, have been calculated using the definition for probable reserves set out by the Society of Petroleum Engineers/World Petroleum Congress. Further information about the differences between the U.S. requirements and the NI 51-101 requirements is set forth under the heading "Note Regarding Reserves Data and Other Oil and Gas Information" in Talisman's Annual Information Form.

The exemption granted to Talisman also permits it to disclose internally evaluated reserves data. While Talisman annually obtains an independent audit of a portion of its reserves, no independent reserves evaluator or auditor was involved in the preparation of the reserves data disclosed in this report.

Throughout this Annual Report Summary, the calculation of barrels of oil equivalent (boe) is calculated at a conversion rate of six thousand cubic feet (mcf) of natural gas for one barrel of oil and is based on an energy equivalence conversion method. Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalence conversion method primarily applicable at the burner tip and does not represent a value equivalence at the wellhead.

The reserves replacement ratio of 166% was calculated by dividing the sum of changes (revisions of estimates, improved recovery and discoveries) to estimated proved oil and gas reserves during 2004 by the Company's 2004 conventional production. The reserves replacement ratio of 179% was calculated by dividing the sum of changes (revisions of estimates, improved recovery, discoveries, acquisitions and dispositions) to estimated proved oil and gas reserves during 2004 by the Company's 2004 conventional production.

The Company's management uses reserve replacement ratios, as described above, as an indicator of the Company's ability to replenish annual production volumes and grow its reserves. It should be noted that a reserve replacement ratio is a statistical indicator that has limitations. As an annual measure, the ratio is limited because it typically varies widely based on the extent and timing of new discoveries, project sanctioning and property acquisitions. Its predictive and comparative value is also limited for the same reasons. In addition, since the ratio does not imbed the cost, value or timing of future production of new reserves, it cannot be used as a measure of value creation.

Advisory – Non-GAAP Financial Measures

Included in this Annual Report Summary are references to terms commonly used in the oil and gas industry such as cash flow, cash flow per share and earnings from operations. These terms are not defined by Generally Accepted Accounting Principles in either Canada or the US. Consequently, these are referred to as non-GAAP measures. Cash flow, as commonly used in the oil and gas industry, appears as a separate caption on the Company's cash flow statement and represents net income before exploration costs, DD&A, future taxes and other non-cash expenses. Cash flow is used by the Company to assess operating results between years and between peer companies with different accounting policies. Cash flow should not be considered an alternative to, or more meaningful than, cash provided by operating, investing and financing

activities or net income as determined in accordance with Canadian GAAP as an indicator of the Company's performance or liquidity. Cash flow per share is cash flow divided by the average number of common shares outstanding during the period. Debt to cash flow is a non-GAAP measure. Earnings from operations is calculated by adjusting the Company's net income per the financial statements, for certain items of a non-operational nature, on an after-tax basis. The Company uses this data to evaluate performance of core operational activities on a comparable basis between periods. Our reported results of cash flow, cash flow per share and earnings from operations may not be comparable to similarly titled measures by other companies.

Advisory – Earnings from Operations

To assist in understanding the Company's earnings from operations, the following table adjusts the Company's net income, per the financial statements, for certain items of a non-operational nature, on an after-tax basis. This term is not defined by Generally Accepted Accounting Principles (GAAP) in either Canada or the US. Consequently, it is referred to as a non-GAAP measure. Our reported results may not be comparable to similarly titled measures by other companies. The Company uses this data to evaluate performance of core operational activities on a comparable basis between periods.

	(\$ millions, except per share amounts)	
	Year ended December 31,	2004
		2003
Net income	663	1,012
Gain on sale of Sudan operations ¹	-	(296)
Sudan operating income ¹	-	(44)
Stock-based compensation ²	119	130
Insurance expenses ³	12	-
Tax effects of unrealized foreign exchange gains on foreign denominated debt ⁴	37	32
Tax rate reductions and other ⁴	(58)	(161)
Earnings from operations ⁵	773	673
Amounts per share – basic ⁶	2.02	1.74
Amounts per share – diluted ⁶	1.98	1.72

¹ On March 12, 2003, Talisman completed the sale of its indirectly held interest in the Greater Nile Oil Project in Sudan for net proceeds of \$1,012 million and a gain of \$296 million. During the period January 1, 2003 through March 12, 2003, the Sudan operations had after tax operating income of \$44 million.

² Stock-based compensation expense relates to the appreciated value of the Company's outstanding stock options and cash units at December 31, 2004, which was first expensed during the second quarter of 2003. The Company's stock-based compensation expense is based on the difference between the Company's share price and its stock options or cash units exercise price.

³ Insurance costs relate to the current liability associated with past claims experience that is expected to be billed in future premiums.

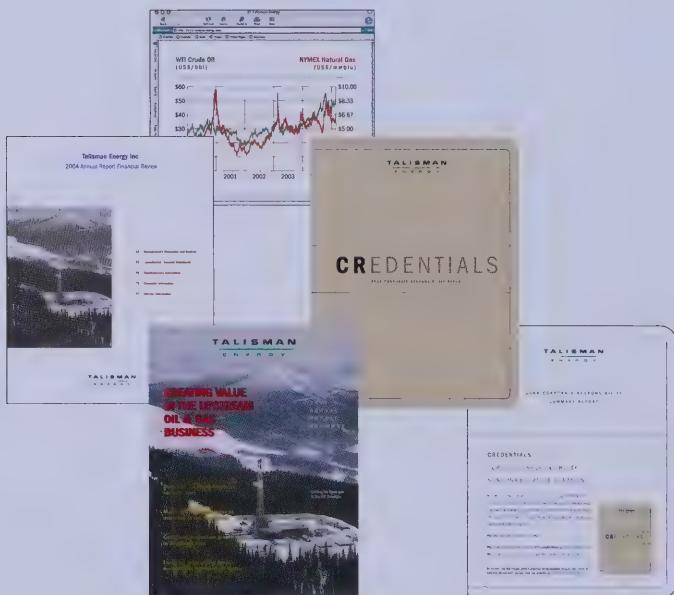
⁴ Tax adjustments include the impact of Canadian corporate tax rate reductions in 2004 and 2003, as well as future taxes relating in part to unrealized foreign exchange gains associated with the impact of a stronger Canadian dollar on foreign denominated debt.

⁵ This is a non-GAAP measure.

⁶ Per share amounts do not reflect the impact of preferred securities charges or gain on redemption of preferred securities.

TALISMAN

ENERGY



Talisman has published a separate Annual Report Financial Review, Corporate Responsibility Report and Corporate Responsibility Summary. These reports are available by contacting the Company and can also be viewed on its website.

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Talisman Energy Inc.

2004 Annual Report Financial Review and Supplementary Information



- 2 Management's Discussion and Analysis**
- 25 Consolidated Financial Statements**
- 54 Supplementary Oil and Gas Information**
- 58 Additional Information**
- 66 Detailed Property Reviews**
- 72 Directors and Executive**
- 73 Corporate Information**
- 74 Investor Information**
- 75 Market Information**
- 76 Advisory, Abbreviations and Definitions**

Production and Exploration Areas



About Talisman

Talisman was established as an independent company in 1992 and is an upstream oil and gas producer with global operations. Talisman's headquarters are in Calgary, Alberta, Canada.

The Company's objective is value creation for its shareholders with a target of 5-10% annual production per share growth.

Talisman's 2004 production was concentrated in North America (47%), the North Sea (32%) and Southeast Asia (18%). Approximately 52% of Talisman's production was crude oil and liquids and 48% was natural gas.

The Company is focusing on larger, deep gas opportunities in North America and large international projects, which it believes will generate higher organic growth rates on average than its peer group.

Talisman is listed on both the Toronto and New York stock exchanges under the symbol TLM. Talisman is also part of the S&P/TSX 60 index. At year end, the Company had an enterprise value (share value and debt) of approximately \$15 billion, with 375 million shares outstanding.

Talisman is committed to conducting its activities in a socially, environmentally and economically responsible manner. Talisman's stakeholders are encouraged to read the Company's 2004 Corporate Responsibility Report.

A New Format

This 2004 Annual Report Financial Review provides the Company's detailed Management's Discussion & Analysis, Consolidated Financial Statements and Notes, Supplementary Information and Detailed Property Reviews. The 2004 Annual Report Summary contains an overview of Talisman's financial and operating results, core areas and investor information and can be obtained from the Company or viewed online at www.talisman-energy.com.

Readers are referred to the advisories, definitions and abbreviations at the back of this Annual Report Financial Review. Talisman Energy Inc. has a number of subsidiaries which conduct business in various parts of the world. For ease of reference, the terms "Talisman" and "Company" are used in this Annual Report Financial Review to refer collectively to Talisman Energy Inc., its direct and indirect subsidiaries and partnership interests held by Talisman Energy Inc. and its subsidiaries, unless the context indicates otherwise. References to production, reserves, acreage and drilling are gross numbers unless otherwise indicated.

Management's Discussion and Analysis

(March 14, 2005)

Financial Statements & Supplementary Information

Highlights

Talisman's Performance Highlights in 2004	3
2004 Variances	4
2005 Outlook Summary	4
Segmented Results Review	4
Corporate Results Review	5
Operating Expenses and Unit Operating Costs	8
Transportation Expenses	8
Depreciation, Depletion And Amortization Expense	8
Dry Hole Expense	9
Exploration Expense	9
Corporate and Other	9
Income Taxes	10
Capital Spending	10
Reserves Replacement	11
Liquidity and Capital Resources	12
Commitments and Off Balance Sheet Arrangements	12
Derivative Financial Instruments and Commodity Sales Contracts	13
Summary of Quarterly Results	14
Application of Critical Accounting Policies and the Use of Estimates	15
New Canadian Accounting Pronouncements	17
Outlook for 2005	19
Risks and Uncertainties	21
Forward Looking Statements	23
Advisory	24

Consolidated Financial Statements

Report of Management	25
Auditors' Report	26
Consolidated Balance Sheets	27
Consolidated Statements of Income	28
Consolidated Statements of Retained Earnings	28
Consolidated Statements of Cash Flows	29
Notes to the Consolidated Financial Statements	30
Supplementary Oil and Gas Information	
Results of Operations from Oil and Gas Producing Activities	54
Capitalized Costs Related to Oil and Gas Activities	54
Costs Incurred in Oil and Gas Activities	55
Standardized Measure of Discounted Future Net Cash Flows from Proved Reserves	55
Continuity of Net Proved Reserves	57
Additional Information	
Historical Financial Summary	58
Consolidated Financial Ratios	59
Ratios and Key Indicators	59
Historical Operations Summary	60
Product Netbacks – gross	61
Net Production (after royalties)	62
Product Netbacks – (net of royalties)	63
Historical Gross Proved Reserves	64
Probable Reserves	64
Continuity of Gross Proved Reserves	65

Detailed Property Reviews

2004 Landholdings	66
2004 Drilling	66
Five Year Drilling Results	66
North America	67
North Sea	69
Southeast Asia	70
Algeria	71
Trinidad and Tobago	71
Sudan	71
Exploration Areas	71
Directors and Executive	72
Corporate Information	73
Investor Information	74
Market Information	75
Advisory, Abbreviations and Definitions	76

Management's Discussion and Analysis

Highlights

(millions of Canadian dollars, unless otherwise stated)

	2004	2003	2002
Net income	663	(Restated ¹) 1,012	(Restated ¹) 544
Dividends	114	90	80
Per share ² (Canadian dollars)			
Net income	1.77	2.56	1.29
Dividends	0.30	0.23	0.20
Production (mboe/d)	438	398	445
Production per share ² (boe/share)	0.42	0.38	0.40
Average sales price ³ (\$/boe)	42.75	38.51	32.89
Gross sales ³	6,874	5,610	5,351
Operating costs ³ (\$/boe)	7.04	6.74	6.44
DD&A, exploration and dry hole expense	2,199	1,899	1,821
Cash provided by operating activities	3,134	2,592	2,415
Exploration and development spending	2,538	2,180	1,848
Total assets	12,408	11,780	12,017
Total long-term debt and preferred securities	2,457	2,634	3,428
Proved reserves additions (before acquisitions and divestitures) (mmboe)	265	143	157
Proved reserves (mmboe)	1,488	1,362	1,485
Reserves replacement ratio ⁴	166%	99%	121%

1 Restatement of prior years to effect retroactive adoption of the new accounting policy on asset retirement obligations as at January 1, 2004. See note 2 to the Consolidated Financial Statements.

2 All per share amounts have been retroactively restated to reflect the impact of the Company's three for one stock split. See note 9 to the Consolidated Financial Statements.

3 During 2004, the Company reclassified transportation costs on a retroactive basis. Previously, these costs had been netted off against revenues or included as operating expenses. See note 2 to the Consolidated Financial Statements.

4 See the MD&A section entitled Reserves Replacement for method of calculation.

This Management's Discussion and Analysis (MD&A) dated March 14, 2005, should be read in conjunction with the Consolidated Financial Statements of the Company. In particular, note 20 provides segmented financial information that forms the basis for much of the following discussion and analysis. The Company's Consolidated Financial Statements and the financial data included in the MD&A have been prepared in accordance with accounting principles generally accepted in Canada. A summary of the differences between accounting principles generally accepted in Canada (Canadian GAAP) and those generally accepted in the United States (US GAAP) is contained in note 21 to the Consolidated Financial Statements.

Unless otherwise stated, references to production and reserves represent Talisman's working interest share (including royalty interests and net profits interests) before deduction of royalties. Throughout this MD&A the calculation of barrels of oil equivalent (boe) is calculated at a conversion rate of six thousand cubic feet (mcf) of natural gas for one barrel of oil and is based on an energy equivalence conversion method. BOEs may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalence conversion method primarily

applicable at the burner tip and does not represent a value equivalence at the wellhead.

Dollar amounts included in the MD&A are expressed in Canadian dollars unless otherwise indicated. All comparative percentages are between the years ended December 31, 2004 and December 31, 2003, unless stated otherwise.

Talisman Energy Inc. has a number of subsidiaries which conduct business in various parts of the world. Talisman Energy Inc.'s financial statements are prepared on a consolidated basis. For ease of reference, throughout this MD&A the terms "Talisman" and the "Company" are used to refer collectively to Talisman Energy Inc., its direct and indirect subsidiaries and partnership interests held by Talisman Energy Inc. and its subsidiaries, unless the context indicates otherwise.

Additional information relating to the Company, including the Company's Annual Information Form, can be found on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. The Company's annual report on Form 40-F may be found in the EDGAR database at www.sec.gov.

Talisman's Performance Highlights in 2004

In 2004, total production averaged 438 mboe/d and the Company exited the year producing 452 mboe/d in December. Net income was \$663 million (\$1.77/share) as higher world commodity prices and increased production were partially offset by the impact of the stronger Canadian dollar in relation to its US counterpart and increased hedging losses, royalties, operating expenses, DD&A and taxes. Net income of \$1,012 million in 2003 included the gain on the Sudan sale of \$296 million and a \$160 million gain from Canadian federal and provincial tax rate reductions.

During 2004, nine million shares were repurchased at an average price of \$31.81/share, debt plus preferred securities decreased by \$177 million and the Company's semi-annual dividend rate increased 12.5% to \$0.15/share.

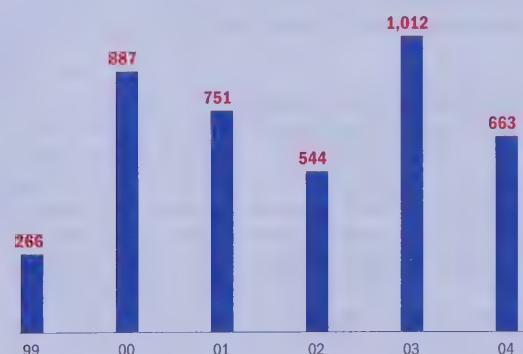
Operational highlights for the year included the completion of the Angostura oil and gas field development located on Block 2(c) offshore Trinidad with first oil in January 2005 and the Monkman b-60-E deep

gas well discovery in Canada. In the North Sea, first production from the Tartan North field was two months ahead of schedule and approval for the development of the Tweedsmuir fields was received. In Indonesia, an agreement was signed to sell an additional 2.3 tcf of natural gas from the Corridor PSC, in which Talisman has a 36% interest.

In 2004, production averaged 438 mboe/d, 10% above last year's average. Production per share increased 11%. Talisman spent \$2.5 billion on exploration and development activities and participated in drilling 641 successful wells in 2004. During 2003 and 2002, production averaged 398 mboe/d and 445 mboe/d, respectively. These figures include the results of the Sudan operations which were sold during the first quarter of 2003. Excluding Sudan operations, production averaged 385 mboe/d in both 2003 and 2002.

In 2004, Talisman added 265 mmboe of proved reserves, before acquisitions and dispositions, replacing 166% of production. Including acquisition and disposition activity, the Company added 286 mmboe of proved reserves, replacing 179% of production.

Net Income
(millions of dollars)



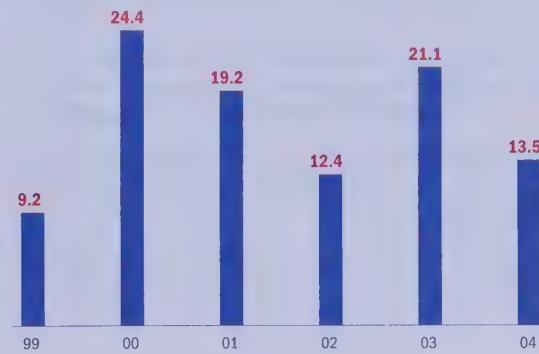
Gross Sales
(million of dollars)



Net Income Per Share
(dollars)



Return on Equity
(%)



2004 Variances

The significant variances from 2003 as summarized in the net income variance table are:

- Higher commodity prices and increased production more than offset the impact of the strengthening of the Canadian dollar and higher royalties.
- Higher commodity prices increased hedging losses.
- Operating expense increased due to current year acquisitions in the North Sea.
- Current taxes rose as a result of increased commodity prices and higher production.
- Cash stock-based compensation payments increased by \$35 million.
- The gain on the sale of the Sudan operations in 2003 was \$296 million.
- Depreciation, depletion and amortization expense increased \$215 million as a result of higher production and increased costs in North America.
- The non-cash portion of the stock-based compensation expense decreased by \$49 million (before tax).
- Future taxes are lower in 2004 due to higher cash taxes.

2005 Outlook Summary

Talisman anticipates 2005 production per share to grow to approximately 0.44-0.47 boe/share. Additional discussion of management's estimates and assumptions for 2005 can be found in the MD&A section entitled Outlook for 2005.

- Production is expected to average 445,000-475,000 boe/d, without acquisitions or dispositions.
- Production increases are expected in most of the Company's geographic segments with the majority coming from international projects.
- Exploration and development spending is expected to be \$3.1 billion (\$1.4 billion in North America and \$1.0 billion in the North Sea).
- The development of the Tweedsmuir and Tweedsmuir South fields in the North Sea will continue with anticipated production start-up in late 2006 (adding approximately 45,000 boe/d in 2007).
- The Trinidad development project started production in January 2005 and is expected to average 12,000-16,000 bbls/d, net to Talisman, in 2005.
- Long-term debt is expected to remain relatively unchanged at \$2.5 billion.

Net Income (millions of dollars)	
2003 Net income ¹	1,012
Favorable (unfavorable)	
Cash items variance	
Oil and liquids volumes	164
Natural gas volumes	342
Natural gas prices	216
Natural gas foreign exchange price impact	(174)
Oil and liquids prices	1,020
Oil and liquids foreign exchange price impact	(304)
Hedging – Commodities	(286)
Royalties	(230)
Other revenue	9
Operating expense	(159)
Transportation expense	(11)
Interest expense	(21)
Current taxes (including Petroleum Revenue Tax)	(301)
General and administrative	(31)
Stock-based compensation payments	(35)
Other	3
Total cash items variance	202
Non-cash items	
Gain on sale of Sudan	(296)
Depreciation, depletion and amortization expense	(215)
Dry hole expense	(60)
Exploration expense	(25)
Future taxes (including Petroleum Revenue Tax)	72
Stock-based compensation (non-cash)	49
Other	(76)
Total non-cash items variance	(551)
2004 Net income	663

¹ Restatement of prior year to effect retroactive adoption of the new accounting policy on asset retirement obligations as at January 1, 2004. See note 6 to the Consolidated Financial Statements.

Sale of Sudan Operations

On March 12, 2003, Talisman completed the sale of an indirectly held subsidiary, which owned an interest in the Greater Nile Oil Project in Sudan, to ONGC Videsh Limited, a subsidiary of India's national oil company. The aggregate amount realized by Talisman from the transaction (including interest and cash received by Talisman between September 1, 2002 and closing) was \$1.13 billion (US\$771 million). (See note 19 to the Consolidated Financial Statements.)

Segmented Results Review

Talisman is an independent international upstream oil and gas company whose main business activities include exploration, development, production, transporting and marketing of crude oil, natural gas and natural gas liquids. The Company's operations in 2004 were conducted principally in four geographic segments: North America, the North Sea, Southeast Asia and Algeria. The Trinidad Angostura project began production in January 2005. Exploration is being advanced in other areas outside the principal geographic segments including Alaska, Colombia, Qatar and Peru. The Company's indirectly held interest in the Greater Nile Oil Project in Sudan

was sold on March 12, 2003. The following is a brief summary of the financial results of each geographic segment. Additional geographic financial results disclosure may be found in note 20 of the Consolidated Financial Statements. The Company's pre-tax segmented income as discussed below is before corporate general and administration, interest, stock-based compensation, taxes and non-segmented foreign exchange gains and losses. Effective January 1, 2004, with the adoption of the new hedge accounting rules (see notes 1(k) and 11 to the Consolidated Financial Statements) the Company allocates hedging gains and losses on the basis of the percentage of relative hedged production. More detailed analysis of the Company's results can be found after this Segmented Results Review.

North America (excludes Alaska)

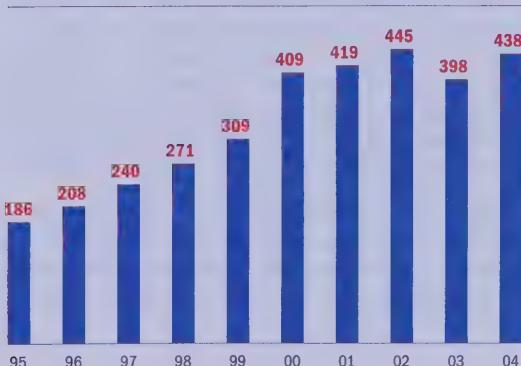
During 2004, the North America operations contributed \$877 million or 51% of the Company's pre-tax segmented income of \$1.7 billion, down from \$892 million (61% of \$1.5 billion) in 2003. Gross sales in North America increased 9% to \$3.1 billion due principally to higher commodity prices and natural gas production. North American production averaged 205,000 boe/d, up 1% over 2003, and represented 47% of the Company's total production in 2004. North American operating expense increased 7% to \$421 million due to increased natural gas volumes, higher processing fees and well workover and maintenance costs. DD&A increased to \$785 million, up from \$688 million due to higher production and 2003 acquisitions. Exploration expense increased to \$123 million due to the expanded exploration budget. Total exploration and development spending for North America in 2004 was \$1.5 billion, up 31% over 2003.

North Sea

The North Sea pre-tax segmented income increased to \$486 million and accounted for 28% of the Company's pre-tax segmented income during 2004, down from 30% in 2003. North Sea gross sales increased 30% to \$2.4 billion due primarily to higher prices and increased liquids production, resulting from current year acquisitions. Production averaged 140,800 boe/d or 32% of the Company's total production. This 7% increase in production also contributed to increases in operating expenses of \$134 million and DD&A expense of \$45 million. Royalty expense increased due to prior period adjustments in 2003. Dry hole expense increased to \$109 million with the inclusion of costs associated with eight wells. Exploration and development spending for the North Sea was \$507 million, up 2% from 2003.

Production

(mboe/d)



Southeast Asia

Southeast Asia contributed 22% (\$379 million) to the Company's pre-tax segmented income in 2004. Gross sales increased 83% to \$1.1 billion with a full year of production from PM-3 CAA in Malaysia/Vietnam and increases from Corridor in Indonesia. Southeast Asia production averaged 79,000 boe/d, an increase of 80% over 2003 and contributed 18% to the Company's total production. Total operating expenses increased 14% from 2003 to \$98 million, but unit costs were down 37% to \$3.39 per boe as a result of the increase in production mainly related to the low unit cost PM-3 CAA volumes. DD&A expense increased with the growth in production. Capital spending for Southeast Asia was \$255 million, down 19% from 2003.

Algeria

Algeria contributed 6% (\$97 million) to the Company's pre-tax segmented income in 2004. Gross sales increased 170% to \$254 million with continuing production increases after startup in 2003. Production for 2004 averaged 13,500 bbls/d. Unit operating costs in 2004 decreased 31% to \$3.51/bbl as a result of the production increases. Capital spending for Algeria was \$8 million, down 76% from 2003 due to the completion of the initial development phase of the Greater MLN project.

Other Exploration and Development

Development continued on the Angostura oil and gas field located on Block 2(c) offshore Trinidad. Including exploratory drilling on the adjacent Block 3(a) and 3D seismic on the onshore Eastern Block, the Company spent \$191 million in Trinidad during 2004. Production from the Angostura field started in January 2005. Elsewhere, during 2004 the Company spent \$125 million, the majority of which was in Alaska, Colombia, Qatar and Peru.

Corporate Results Review

Revenue

Revenues from oil, liquids and natural gas sales in 2004 were \$6.9 billion, up 23% over last year due to higher oil and liquids prices (\$716 million), gas volumes (\$342 million), oil and liquids volumes (\$164 million) and natural gas prices (\$42 million). As a result of higher prices, hedging losses in 2004 were \$286 million greater than 2003.

Daily Production Volumes

	2004	2003	2002
Oil and liquids (mbbls/d)			
North America	57.4	59.6	62.7
North Sea	121.9	113.1	127.5
Southeast Asia	35.6	24.4	22.5
Algeria	13.5	6.6	—
Sudan	—	13.0	60.0
	228.4	216.7	272.7
Natural gas (mmcf/d)			
North America	885	864	820
North Sea ¹	114	109	122
Southeast Asia	260	117	94
	1,259	1,090	1,036
Total (mboe/d at 6:1)	438	398	445
Production per share (boe/share)	0.42	0.38	0.40

¹ Includes gas acquired for injection and subsequent resale of 5 mmcf/d in 2004.

In 2004, production averaged 438 mboe/d for the year, 10% above last year's average. Production per share increased 11%. The 2003 and 2002 production averages of 398 mboe/d and 445 mboe/d, respectively, include the results of the Sudan operations which were sold during the first quarter of 2003. Excluding the Sudan operations, production averaged 385 mboe/d in both 2003 and 2002. Production in 2004 was 14% higher than the previous year, excluding the Sudan production.

During 2004, North America natural gas production increased by 21 mmcf/d to 885 mmcf/d. This 2% growth in production is due to Talisman's drilling program. During 2004, Talisman drilled 620 wells in North America with a 94% success rate. Significant production increases were achieved in Appalachia which averaged 89 mmcf/d, up 29 mmcf/d, and in Alberta Foothills, up 21 mmcf/d to 151 mmcf/d, as new wells were brought onstream, which more than offset decreases resulting from natural declines. North America oil and liquids production averaged 57,392 bbls/d during the year, down 4% from 2003 due to natural declines and the Company's continued focus on natural gas.

North Sea oil and liquids production averaged 121,861 bbls/d, an increase of 8% over 2003, due to the impact of drilling results and asset acquisitions. During 2004, the Company completed a number of acquisitions, one of which increased the Company's interest in a number of fields in the Flotta Catchment Area. The Company also acquired a 67% interest in the Galley field, as well as additional minor working interests in other North Sea fields and exploration blocks. During the fourth quarter, production averaged 127,943 bbls/d, up 15% over the third quarter, and exited 2004 with production of 132,000 bbls/d in December. North Sea production highlights for 2004 included the startup of the Tartan North development ahead of schedule in August. North Sea natural gas production increased 5% to 114 mmcf/d.

Southeast Asia oil and liquids production averaged 35,644 bbls/d in 2004, an increase of 46% over 2003. Total production for the year in Malaysia/Vietnam increased to 22,388 bbls/d from 8,672 the previous year, reflecting a full year of production from the PM-3 CAA Phase 2 development project, which came on stream in September 2003. Indonesia oil and liquids production averaged 13,255 bbls/d, down 16% from 2003 due to natural decline and the expiry of the Tanjung contract during the fourth quarter of 2004.

Southeast Asia natural gas production increased 122% to 260 mmcf/d in 2004. Natural gas production from PM-3 CAA Phase 2 increased to 119 mmcf/d in 2004, due to a full year of Phase 2 production. Natural gas sales in Indonesia averaged 141 mmcf/d with higher Corridor sales to Caltex and a full year of sales to Singapore, which commenced in September of 2003, under a 20 year contract with Gas Supply Pte Ltd.

Algeria oil production for 2004 averaged 13,537 bbls/d, up from 6,594 bbls/d in 2003 which reflected a partial year of production.

Commodity Prices¹

	2004	2003 ²	2002 ²
Oil and liquids (\$/bbl)			
North America	42.11	35.78	32.81
North Sea	48.29	39.72	38.76
Southeast Asia	51.29	41.35	40.12
Algeria	51.17	39.01	—
Sudan	—	43.89	37.79
	47.45	39.09	37.34
Natural gas (\$/mcf)			
North America	6.83	6.58	4.20
North Sea	5.55	4.77	4.16
Southeast Asia	4.74	5.72	5.65
	6.28	6.30	4.33
Company \$/boe (6 mcf=1 boe)	42.75	38.51	32.89
Hedging loss/(income)			
excluded from the above prices			
Oil and liquids (\$/bbl)	5.42	2.05	0.09
Natural gas (\$/mcf)	0.07	0.08	(0.22)
Total \$/boe (6mcf=1boe)	3.02	1.34	(0.46)
Benchmark prices			
WTI (US\$/bbl)	41.40	30.99	26.15
Dated Brent (US\$/bbl)	38.22	28.83	25.03
NYMEX (US\$/mmbtu)	6.09	5.44	3.25
AECO (C\$/gi)	6.44	6.35	3.86
US\$/Canadian\$ exchange rate	0.768	0.714	0.637
Canadian\$/Pound sterling exchange rate	2.384	2.288	2.358

¹ Prices exclude gains or losses related to hedging activities and do not include synthetic oil.

² During 2004, the Company reclassified transportation costs on a retrospective basis. Previously, these costs had been partially netted off against realized prices. See note 2 to the Consolidated Financial Statements.

World oil prices reached record levels during 2004, with WTI averaging US\$41.40/bbl, a 34% increase over the 2003 WTI average of US\$30.99/bbl. North American natural gas prices increased 12% over 2003 with NYMEX averaging US\$6.09/mmmbtu.

More than 90% of the Company's revenues are either received in US dollars or are closely referenced to US dollars. The Company converts these revenues to Canadian dollars for reporting purposes. The strengthening of the Canadian dollar reduced Talisman's reported oil and liquids price by \$3.62/bbl to \$47.45/bbl, a 21% increase over 2003. During the same time period, WTI increased 34% to average US\$41.40 during 2004. Talisman's North America oil and liquids price averaged \$42.11/bbl, up 18% from last year. The Company's North Sea oil and liquids price averaged \$48.29/bbl, up 22% over 2003. The Company's Southeast Asia oil and liquids price averaged \$51.29/bbl, up 24% over 2003. The Company's Algeria oil price averaged \$51.17/bbl, up 31% over 2003, as the price was impacted by the timing of production liftings.

Talisman's average natural gas price in North America increased 4% to \$6.83/mcf. The strengthening of the Canadian dollar during 2004 reduced Talisman's reported North America natural gas price by

\$0.47/mcf. The Company's North Sea natural gas price increased 16% as a result of an increase in the spot price due to tightening supply/demand fundamentals.

The Company's natural gas price in Southeast Asia averaged \$4.74/mcf, down 17% from 2003, due to the increase in sales from Malaysia/Vietnam, where prices are referenced to the Singapore fuel oil spot market and averaged \$3.09/mcf in 2004. Gas production from Malaysia/Vietnam accounted for 46% of Southeast Asia gas production during the current year, up from 4% of total 2003 production for the area. A large portion of Corridor gas production which constituted approximately 51% of the Company's 2004 gas sales in Southeast Asia, is exchanged for Duri crude oil on an energy equivalence relationship and is sold offshore with payment in US dollars, and averaged \$6.38/mcf.

The Company's average sales prices are before a net hedging loss of \$480 million, comprised of a \$0.07/mcf loss on gas hedges (2003 – \$0.08/mcf loss) and a \$5.42/bbl loss on oil hedges (2003 – \$2.05/bbl loss). The physical and financial commodity price contracts for 2005 outstanding at year end are disclosed in notes 11 and 12 to the Consolidated Financial Statements with additional discussion in the MD&A section entitled Derivative Financial Instruments and Commodity Sales Contracts. Additional discussion of the expected impact of commodity price contracts on the Company's 2005 results can be found in the Outlook for 2005 section of this MD&A. The Company's accounting policy with respect to derivative financial instruments and commodity contracts is disclosed in note 1(k) to the Consolidated Financial Statements.

Royalties¹

	2004		2003 ²		2002 ²	
	Rates (%)	\$millions	Rates (%)	\$millions	Rates (%)	\$millions
Oil and liquids						
North America	20	174	21	155	21	149
North Sea	1	19	–	(3)	4	74
Southeast Asia	41	277	39	143	37	122
Algeria	38	97	49	46	–	–
Sudan	–	–	46	97	40	328
	14	567	14	438	18	673
Natural gas						
North America	19	425	21	432	18	224
North Sea	8	18	6	11	12	21
Southeast Asia	25	114	5	13	4	9
	19	557	18	456	15	254
	16	1,124	16	894	17	927

¹ Royalty rates do not include synthetic oil.

² During 2004, the Company reclassified transportation costs as an expense on a retroactive basis. Previously, these costs had been partially netted off against revenues. This change has no impact on net income, but increased revenues, resulting in reduced royalty rates, which are percentages of reported prices. See note 2 to the Consolidated Financial Statements.

The consolidated royalty expense increased 26% to \$1,124 million in 2004, due to higher commodity prices, increased volumes and rate increases in Southeast Asia.

In North America, natural gas royalties decreased slightly to \$425 million, averaging 19%, down from 21% in 2003. This reflects higher gas cost allowance, operating costs and royalty holidays, in addition to the increase to 89 mmcf/d in the Company's Appalachia production, which had a lower royalty rate.

In Southeast Asia, the natural gas royalty rate increased as a result of the impact of the payout of cost recovery pools at Corridor during the first quarter of 2004. Under the terms of the Corridor production sharing contract (PSC), after the Company has recovered its historical capital costs, the Government of Indonesia increases its share of production, which results in a higher royalty rate. Corridor's natural gas royalty rate averaged 29% during 2004, compared to 5% in the prior year. The Southeast Asia royalty rate was also impacted by a higher proportion of Malaysia/Vietnam volumes at a royalty rate of 24%. Under the terms of the production sharing contract in Malaysia, 60% of gas production is available for cost recovery. The government receives 10% of production as royalty and the remaining 30% profit gas is split 50% to the government and 50% to the working interest owners. This results in a total royalty of 25%, which is combined with a 13% royalty rate in Vietnam for a blended rate of 24%. This royalty rate is expected to continue until the Malaysia gas cost pools are recovered in 2013, based on current forecasts of production and prices.

The Company's oil and liquids royalty rate remained constant at 14%, while the amount of royalties paid increased 29% to \$567 million. This increase is due primarily to a combination of higher prices and production increases in Southeast Asia and Algeria, partially offset by the sale of the Sudan operations. Southeast Asia oil and liquids royalties averaged 41% in 2004, up from 39% in 2003. The total expense almost doubled to \$277 million due to production increases in Malaysia/Vietnam where rates, which are tied to production levels, reached a current maximum of 35%, up from 31% last year. Under the terms of the production sharing contract in Malaysia, 50% of oil production is available for cost recovery. The government receives 10% of production as royalty and the remaining 40% profit oil is split 70% to the government and 30% to the working interest owners. This results in a total royalty of 38%, which is combined with an 18% royalty rate in Vietnam for a blended rate of 35%. This royalty rate is expected to continue until the Malaysia oil cost pools are recovered in the second half of 2006 based on current forecasts of production and prices. In 2007, the rate is expected to increase to approximately 41%.

In Algeria, the royalty expense more than doubled to \$97 million as production increased 105% from last year, while the rate decreased to 38% from 49%.

Under the terms of the Algeria production sharing contractual arrangement, Talisman is subject to a 51% total government take, part of which is income tax, during the first five years of production. During the first four years of production, Talisman receives accelerated production entitlement. During the fifth year of the agreement, any accelerated production entitlement received by Talisman during the first four years in excess of 49% on a cumulative basis reverts to the government.

Accordingly, during the first four years of production, Talisman will record a deferred royalty expense and liability for any production entitlement received in excess of 49%. During 2004, Talisman recorded deferred Algerian royalties of \$18 million, for a total of \$32 million to date. In both 2004 and 2003, total taxes and royalties combined to average a rate of 51%.

Operating Expenses and Unit Operating Costs

	2004		2003 ¹		2002 ¹	
	\$/bbl	\$millions	\$/bbl	\$millions	\$/bbl	\$millions
Oil and liquids						
North America	6.75	135	6.28	131	5.55	121
North Sea	13.27	592	11.51	475	9.87	459
Southeast Asia	5.57	73	7.22	64	7.77	64
Algeria	3.51	17	5.07	12	—	—
Sudan	—	—	3.73	18	3.82	84
	9.89	817	8.96	700	7.39	728
Natural gas						
North America	0.79	257	0.75	237	0.71	212
North Sea	0.55	23	0.37	14	0.43	19
Southeast Asia	0.27	25	0.50	22	0.59	21
	0.66	305	0.69	273	0.67	252
Company (boe)	7.04	1,122	6.74	973	6.44	980
Synthetic oil	20.67	23	22.63	22	18.00	19
Pipeline	—	53	—	44	—	49
	—	1,198	—	1,039	—	1,048

¹ During 2004, the Company reclassified transportation costs on a retroactive basis. Previously, these costs had been partially included in operating expenses. See note 2 to the Consolidated Financial Statements.

Total operating expenses for the Company during 2004 were \$1.2 billion, 15% higher than last year, with the North Sea comprising \$134 million or almost 84% of the \$159 million year-over-year increase. On a per unit basis, oil and liquids costs increased 10% to \$9.89/bbl and natural gas costs averaged \$0.66/mcf, a 4% decrease from 2003.

North America oil and liquids operating costs during 2004 were \$135 million, an increase of 3% from 2003, due to increases in maintenance and well workovers, partially offset by reduced power costs. On a per unit basis, the increase in total costs coupled with a 4% decrease in volumes resulting in a 7% increase to \$6.75/bbl. Unit operating costs for natural gas increased 5% to \$0.79/mcf with higher processing and maintenance and well workover costs partially offset by reduced power costs and the lower unit operating costs (\$0.25/mcf) in Appalachia.

In 2004, North Sea operating expenses of \$615 million were up \$126 million or 26% over last year due to the impact of increased production resulting from recent acquisitions and a 4% strengthening in the pound sterling against the Canadian dollar. The acquisitions resulted in an increase of \$97 million of the \$126 million increase over 2003. Unit operating costs averaged \$11.93/boe which reflects increased maintenance and well workover costs as well as pipeline repair costs at Beatrice.

Southeast Asia unit operating costs decreased 37% to \$3.39/boe, due to higher PM-3 CAA and Corridor sales volumes. Oil and liquids unit costs averaged \$5.57/bbl, down 23% from the prior year.

In Malaysia/Vietnam, PM-3 CAA unit costs averaged \$2.10/bbl, a 66% decrease from 2003, due to increased production volumes. Indonesia unit costs increased 46%, averaging \$11.44/bbl, primarily reflecting increased costs and decreased volumes associated with the expiry of the Tanjung contract during the fourth quarter of 2004. Southeast Asia natural gas unit costs averaged \$0.27/mcf, 46% less than 2003. At Corridor, total gas expenses decreased by \$1 million and production increased by 26% for an average of \$0.38/mcf, 25% less than last year. Malaysia/Vietnam averaged \$0.12/mcf as production increased to 119 mmcfd, up from 5 mmcfd in 2003.

Algeria unit operating costs averaged \$3.51/bbl, a decrease of 31% from \$5.07/bbl, due to the production increase in 2004.

Transportation Expenses

Effective 2004, the Company began accounting for transportation costs as expenses, on a retroactive basis. Previously, these costs had been either netted off against the realized price or included as a component of operating costs, depending on the circumstances in the various geographic segments. Prior year comparatives were restated to reflect this change in accounting policy. See note 2 to the Consolidated Financial Statements for further details. The result of this reclassification, which had no impact on net income, is set forth in the table below:

	2004		2003		2002	
	\$oil and liquids (\$/bbl)	\$millions	\$oil and liquids (\$/bbl)	\$millions	\$oil and liquids (\$/bbl)	\$millions
Oil and liquids	(\$/bbl)	\$millions				
North America	0.49	10	0.48	10	0.38	9
North Sea	1.14	51	1.16	48	1.24	56
Southeast Asia	0.23	3	0.41	4	0.82	7
Algeria	1.76	9	1.77	4	—	—
Natural gas	(\$/mcf)					
North America	0.20	66	0.21	67	0.24	71
North Sea	0.35	14	0.37	15	0.45	20
Southeast Asia	0.41	39	0.77	33	0.93	31
		192		181		194

Depreciation, Depletion and Amortization Expense (includes accretion of ARO)

	2004		2003 ¹		2002 ¹	
	\$/boe	\$millions	\$/boe	\$millions	\$/boe	\$millions
North America	10.47	785	9.26	688	8.32	606
North Sea	12.83	661	12.85	616	12.54	676
Southeast Asia	6.02	174	5.92	95	6.24	87
Algeria	5.99	30	6.99	17	—	—
Sudan	—	—	3.98	19	4.24	93
	10.29	1,650	9.87	1,435	8.99	1,462

¹ Restatement of prior year to effect retroactive adoption of the new accounting policy on asset retirement obligations (ARO) as at January 1, 2004. See note 6 to the Consolidated Financial Statements.

The Company's 2004 depreciation, depletion and amortization (DD&A) expense increased \$215 million or 15% to \$1.7 billion, with a per unit rate of \$10.29/boe. During the fourth quarter of 2004, the Company

recorded an adjustment to DD&A related to prior quarters of the year and changed the estimated lives of certain assets. The DD&A rates in North America increased primarily due to higher drilling costs, increased capital expenditures on infrastructure projects and the inclusion of costs associated with US property and midstream acquisitions in 2003. In the North Sea, total expense increased 7% to \$661 million due to the impact of increased production, while the unit rate remained constant. Total DD&A expense for Southeast Asia increased primarily as a result of increased production from Malaysia/Vietnam, which has a higher DD&A rate.

For additional information relating to DD&A refer to the MD&A section entitled Application of Critical Accounting Policies and to note 5 to the Consolidated Financial Statements.

Dry Hole Expense

(millions of dollars)	2004	2003	2002
North America	128	135	128
North Sea	109	69	9
Southeast Asia	25	9	4
Algeria	4	1	—
Sudan	—	—	13
Other	45	37	20
	311	251	174

During 2004, the Company incurred dry hole expenses of \$311 million, \$60 million higher than last year. In the North Sea, a total of seven wells were expensed and accounted for the majority of the overall increase. The Company also wrote off two wells in Indonesia, four wells in Malaysia/Vietnam and four wells in the rest of the world.

Under the successful efforts method of accounting for oil and gas activities, the costs of unsuccessful and non-commercial exploration wells are written off to dry hole expense in the year such determination is made. Until such determination is made, the costs are included in non-depleted capital. At year end, \$284 million of costs relating to exploration wells were included in non-depleted capital and not subject to DD&A pending final determination, the majority of which were drilled in 2004 (2003 – \$283 million; 2002 – \$353 million).

Exploration Expense

(millions of dollars)	2004	2003	2002
North America	123	87	66
North Sea	28	21	20
Southeast Asia	20	17	19
Algeria	—	—	5
Sudan	—	5	6
Other ¹	67	83	69
	238	213	185

¹ Other includes Trinidad, Qatar and Alaska.

Exploration expense consists of geological and geophysical costs, seismic, land lease rentals and indirect exploration expenses. These costs are expensed as incurred under the successful efforts method of accounting.

Exploration expense is closely tied to the total amount of exploration activity in a year.

Corporate and Other

(millions of dollars)	2004	2003	2002
G&A expense	183	152	138
Interest expense	158	137	164
Capitalized interest	13	24	25
Stock-based compensation	171	185	—
Preferred securities charges	15	38	42
Other revenue	85	76	80
Other expense	89	16	113

General and administrative (G&A) expense increased due to salary increases and additional personnel due to expanding investment and operations, additional documentation requirements associated with corporate governance initiatives, and higher legal and pension costs. On a unit basis, G&A was \$1.14/boe (2003 – \$1.05/boe; 2002 – \$0.85/boe).

As a result of the reduction in the total balance of long-term debt and preferred securities, partially offset by higher effective interest rates during the year, the sum of interest on long-term debt, capitalized interest and preferred securities charges decreased by \$13 million to \$186 million. Interest capitalized over the last year is primarily associated with the Angostura development in Trinidad, which came on production in January 2005, and the Tweedsmuir development project in the North Sea.

During 2004, the Company redeemed its outstanding preferred securities, realizing a \$23 million gain (net of tax), being the difference between the carrying value and the redemption cost. The redemptions were funded from current cash flow and bank borrowings, and gains were credited directly to retained earnings. Preferred securities charges, net of taxes, of \$9 million have been charged directly to retained earnings. Preferred securities charges, before tax, totaled \$15 million. Net income per share includes both the after tax gain on the redemption of, and after tax charges for, preferred securities.

Other revenue includes pipeline and custom treating revenues and miscellaneous income. Other expense for 2004 included foreign exchange losses of \$30 million, property impairments in the North Sea at Iona and Claymore of \$31 million, a net loss on property dispositions of \$30 million, and a \$20 million insurance expense adjustment partially offset by a gain on the unwinding of cross currency and interest rate swap contracts of \$15 million. The loss on property dispositions was comprised of a loss of \$49 million on a sale of North American assets partially offset by gains on other dispositions, principally the sale of the Madura property in Indonesia.

Stock-Based Compensation

Stock-based compensation expense relates to the appreciated value of the Company's outstanding stock options and cash units at December 31, 2004, which was first expensed during 2003. The Company's stock-based compensation expense is based on the difference between the Company's share price and its stock options, or cash units exercise price. The \$171 million expensed in 2004 was comprised of \$89 million

non-cash and \$82 million cash. The number of options exercised in 2004 was high relative to historical trends. Over the course of the year, the average exercise price of all outstanding options increased from \$17.55 per share to \$19.58 per share.

The Company's stock option plans were amended during 2003 to provide employees and directors who hold stock options with the choice upon exercise to purchase a share of the Company at the stated exercise price or to receive a cash payment in exchange for surrendering the option. The cash payment is equal to the appreciated value of the stock option as determined based on the difference between the option's exercise price and the Company's share price approximately at the time of surrender. The cash payment alternative is expected to result in reduced shareholder dilution in the future as it is anticipated that most holders of the stock options (now and in the future) will elect to take a cash payment. Such cash payments made by the Company to stock option holders are deductible by the Company for income tax purposes, making these plans more cost effective.

Since the introduction of the cash feature, approximately 98% of options that have been exercised, have been exercised for cash, resulting in reduced dilution of shares.

Additional stock-based compensation expense or recoveries in future periods is dependent on the movement of the Company's share price and the number of outstanding options and cash units.

Income Taxes

The Company's effective tax rate for 2004, after deducting Petroleum Revenue Tax (PRT), was 36% compared to 15% in 2003 and 44% in 2002. A number of events in the past two years have significantly impacted the Company's effective tax rates including tax rate reductions in Canada, sale of the Company's indirectly held interest in the Greater Nile Oil Project in Sudan in 2003 and a supplemental oil and gas tax enacted in the UK in 2002.

Effective Income Tax Rate

(millions of dollars)	2004	2003 ¹	2002 ¹
Income before tax	1,165	1,285	1,101
Less PRT			
Current	124	72	91
Future	5	20	33
	129	92	124
	1,036	1,193	977
Income tax expense/(recovery)			
Current	478	229	258
Future	(105)	(48)	175
	373	181	433
Effective income tax rate (%)	36	15	44

¹ Restatement of prior year to effect retroactive adoption of the new accounting policy on asset retirement obligations as at January 1, 2004. See note 6 to the Consolidated Financial Statements.

In 2004, the Company recorded a future tax recovery of \$50 million due to a reduction in Canadian federal and provincial tax rates, compared to

a \$160 million recovery of future taxes in 2003 for both Canadian rates. A similar reduction in the Alberta corporate tax rate in 2002 resulted in a future tax recovery of \$12 million. Effective April 17, 2002, the UK increased its corporate income tax rate applicable to North Sea oil and gas profits by enacting a 10% supplementary charge. This increased the Company's future tax expense for 2002 by \$128 million. Partially offsetting this tax increase was the acceleration of tax allowances for capital expenditures incurred after April 17, 2002.

A normalized effective tax rate after removing the impact of the Canadian and UK tax rate changes, the tax on unrealized foreign exchange gains on foreign denominated debt and the impact of the gain on disposal of the Sudan operations would have been 37% in 2004, 34% in 2003 and 35% in 2002. Foreign exchange rate fluctuations over the past two years have resulted in taxes on gains related to inter-company loans and non-Canadian dollar denominated debt, for which there is no corresponding component of the unrealized gain reflected in income before taxes. See note 15 to the Consolidated Financial Statements for additional information on the Company's income taxes.

Current income tax expense increased to \$478 million in 2004, due primarily to higher commodity prices and volumes, which resulted in increases in current taxes of \$175 million in the North Sea, \$50 million in Southeast Asia, \$33 million in Algeria and \$22 million in North America.

The UK Government levies PRT on North Sea fields which received development approval before April 1993, based on gross profit after allowable deductions, including capital and operating expenditures. PRT, which is deductible for purposes of calculating corporate income tax, increased as a result of both higher prices and volumes on fields in the UK subject to PRT.

Capital Spending^{1,3}

(millions of dollars)	2004	2003	2002
North America	1,500	1,580	939
North Sea	721	693	518
Southeast Asia	235	316	269
Algeria	8	34	107
Trinidad	191	130	78
Sudan	—	2	98
Other ²	125	93	43
Corporate, IS and Administrative	26	38	26
	2,806	2,886	2,078

¹ Includes expenditures for exploration, development and asset acquisitions net of dispositions, but excludes the Sudan disposition in 2003.

² Other includes Colombia, Peru, Qatar and frontier North America.

³ Includes interest costs which are capitalized on major development projects until facilities are completed and ready for use.

Natural gas continues to be the focus of the Company's capital investment activities in North America, supplemented by low risk oil projects and strategic acquisitions. Of the \$1.5 billion of capital spending in North America, \$590 million related to exploration activities while development accounted for \$862 million. The Company participated in 444 gas wells and 137 oil wells in North America and had a success rate of 94%. Development spending was concentrated in

the predominantly gas producing core areas in the Alberta Foothills, Greater Arch, Deep Basin, Monkman/BC Foothills, Edson and Appalachia regions. In addition, the Company spent \$48 million on acquisitions (\$110 million, net of dispositions of \$62 million), including US properties (\$93 million).

Total capital spending in the North Sea was \$721 million including \$150 million for exploration and \$357 million for development with the remaining \$214 million for net property acquisitions. Development activity included the Tweedsmuir project and drilling and recompletion activity within the Clyde, Buchan, Tartan, Piper and Claymore fields. In addition, development expenditures were incurred in Norway on the Gyda field. A total of 17 successful development wells were drilled during 2004 in the North Sea. Exploration drilling included the successful 21/1a North Buchan J5 well which added significant reserves to Tweedsmuir. During 2004, the Company completed a number of acquisitions, the most significant of which was the \$176 million acquisition from Intrepid which resulted in an increase in the Company's interests in a number of fields in the Flotta Catchment Area. The Company also acquired a 67% interest in the Galley field, as well as additional minor working interests in other North Sea fields and exploration blocks.

Malaysia/Vietnam accounted for a majority of the \$235 million of total capital spending in Southeast Asia, due to the PM-3 CAA development and the South Angsi field development in PM305. Talisman participated in drilling 14 successful development wells in Malaysia/Vietnam during 2004. In addition, one successful exploration well was drilled in PM-3 CAA. A total of \$3 million, net of proceeds on disposition, was spent in Indonesia. Talisman participated in drilling two unsuccessful wells in Indonesia during 2004.

Capital spending in Algeria totaled \$8 million in 2004, as the Company participated in three successful wells during the year.

In Trinidad, a total of \$191 million was spent on the Angostura development and exploration activity.

During 2004 the Company spent \$63 million in Alaska on seismic, exploratory drilling and land acquisitions. Talisman spent \$17 million in Colombia on exploration drilling during 2004, as well as \$11 million on seismic acquisition in Qatar and \$13 million on exploration in Peru.

Information related to details and funding of the 2005 capital expenditures program is included in the Outlook for 2005 section of this Management's Discussions and Analysis.

Reserves Replacement

Talisman drilled 641 successful wells in 2004 and increased its total proved reserves by 9% to 1,488 mmboe at the end of 2004. The Company replaced 179% of conventional production from all sources and 166% through the drill bit. Talisman's net proved reserves increased by 11% to 1,207 mmboe. Drilling related reserve additions totalled 265 mmboe. Talisman also acquired 21 mmboe of proved reserves.

Proved oil and liquids reserves increased 7% to 618 mmbbls. Talisman added a total of 121 mmbbls, including 85 mmbbls in the North Sea, 18 mmbbls in Southeast Asia, 13 mmbbls in Algeria and 13 mmbbls in North America, partially offset by an 8 mmbbls reduction in Trinidad. The majority (75%) of these reserve additions were through discoveries, additions, extensions and revisions. North America (30%) and the North Sea (48%) account for the majority of Talisman's oil reserves. These are predominantly high quality crude oil and natural gas liquids. Talisman has virtually no heavy oil or bitumen reserves.

Talisman's proved natural gas reserves increased by 11% in 2004, totaling 5.2 tcf at year end. Talisman's North American natural gas reserves were 2.6 tcf at year end, unchanged from the previous year. In North America, the Company added a record 479 bcf through the drill bit (147% of production), offset by record natural gas production (325 bcf), minor net asset sales (50 bcf) and downward revisions to existing reserves (113 bcf). These numbers include Fortuna's natural gas reserves in the northeastern US, which totalled 153 bcf (an increase of 40%) at year end, with the addition of 59 bcf through drilling activities.

Talisman's proved international natural gas reserves increased 26% to 2.6 tcf at year end. The majority of this increase came from the addition of 695 bcf of proved undeveloped reserves in Indonesia as a result of an agreement to sell gas to PT Perusahaan Gas Negara (Persero), Tbk. ("PGN"), the Indonesian national gas transmission and distribution company. These reserves will be developed over the next two years, in anticipation of sales commencing in the first quarter of 2007.

Over the past three years, Talisman has added 565 mmboe of proved reserves through discoveries, additions and extensions (including revisions) and acquired 58 million boe of proved reserves net of dispositions (not including the impact of the sale of Talisman's indirect interest in the Greater Nile Oil Project in Sudan). Approximately 90% of Talisman's proved reserves have been independently evaluated over the past three years.

The reserves replacement ratio of 166% was calculated by dividing the sum of changes (revisions of estimates, improved recovery and discoveries) to estimated proved oil and gas reserves during 2004 by the Company's 2004 conventional production. The reserves replacement ratio of 179% was calculated by dividing the sum of changes (revisions of estimates, improved recovery, discoveries, acquisitions and dispositions) to estimated proved oil and gas reserves during 2004 by the Company's 2004 conventional production.

The Company's management uses reserve replacement ratios, as described above, as an indicator of the Company's ability to replenish annual production volumes and grow its reserves. It should be noted that a reserve replacement ratio is a statistical indicator that has limitations. As an annual measure, the ratio is limited because it typically varies widely based on the extent and timing of new discoveries, project sanctioning and property acquisitions. Its predictive and comparative value is also limited for the same reasons. In addition, since the ratio does not imbed the cost, value or timing of future production of new reserves, it cannot be used as a measure of value creation.

Liquidity and Capital Resources

Talisman's long-term debt at year end was \$2.5 billion, down from a total of \$2.6 billion of long-term debt (\$2.2 billion) and preferred securities (\$431 million) at the end of last year. During 2004, the Company generated \$3.1 billion of cash provided by operating activities and spent \$2.5 billion on exploration and development and a net \$242 million on acquisitions. In addition, the Company financed the redemption of the preferred securities, repurchased nine million common shares and paid dividends of \$114 million. At year end, the Company had drawn \$328 million of its available \$1,335 million bank lines of credit. The Company maintains a debt shelf prospectus in the US under the Multi-Jurisdictional Disclosure System under which it may issue up to US\$1 billion of debt securities in the US public debt market until January 2006, at which time the current registration statement could no longer be used and a new registration statement would have to be filed.

In 2005, \$241 million (US\$200 million) of long-term debt matures. None of this debt has been classified as a current liability as the Company currently has the ability and intention to refinance amounts due within one year with existing bank facilities.

At December 31, 2004, the Company had an excess of current liabilities over current assets of \$673 million. In 2005, cash provided by operating activities is expected to range between \$3.6 and \$3.8 billion, with capital expenditures of \$3.1 billion, dividends of \$110 million and share repurchases in the amount of approximately \$300 million. The Company does not expect working capital to change significantly, but to the extent that funds are required to meet obligations, the Company can draw down on its existing bank credit facilities (\$1.0 billion available for drawdown at December 31, 2004).

During 2004, the Company redeemed its outstanding preferred securities, realizing a \$23 million gain (net of tax), being the difference between the carrying value and the redemption cost. The redemptions were funded from current cash flow and bank borrowings and gains were credited directly to retained earnings. See note 8 to the Consolidated Financial Statements.

During 2004, the Company implemented a three-for-one share split of its issued and outstanding common shares. All per share statistics included in this MD&A have been restated to reflect this share split. See note 9 to the Consolidated Financial Statements.

The Company repurchased 8,987,400 common shares under its normal course issuer bid (NCIB) during 2004 for a total of \$286 million (\$31.81/share). Subsequent to year end, the Company repurchased an additional 3,811,300 common shares as at March 2, 2005 under the NCIB for a total of \$128 million (\$33.57/share). The NCIB expires in March 2005 and the Company has received Board of Directors' approval to renew the NCIB for another year. This will allow the Company to repurchase up to 5% of the Company's common shares outstanding at the time of renewal.

Two common share dividends were paid in 2004 for a total of \$114 million (\$0.30/share). The Company's dividend is determined semi-annually by the Board of Directors. At year end, there were 375 million common shares outstanding, down from 384 million at December 31, 2003. As at March 2, 2005, there were 371 million common shares outstanding, as well as 19,779,240 stock options outstanding.

At the end of 2004, Talisman's ratio of debt to cash provided by operating activities was 0.78:1 and of debt to debt plus equity was 34%.

For additional information regarding the Company's liquidity and capital resources, refer to note 7 to the Consolidated Financial Statements. In addition, refer to the Sensitivities table included in the Outlook Section of this MD&A for possible 2005 impacts of various factors on the Company's estimated 2005 net income and cash provided by operating activities.

Talisman's investment grade senior unsecured long-term debt credit ratings remain unchanged with Dominion Bond Rating Service ("DBRS"), Moody's Investor Service, Inc. ("Moody's") and Standard & Poor's ("S&P") at BBB (high), Baa1 and BBB+, respectively.

Commitments and Off Balance Sheet Arrangements

As part of its normal business, the Company has entered into arrangements and incurred obligations that will impact the Company's future operations and liquidity, some of which are reflected as liabilities in the Consolidated Financial Statements at year end. The principal commitments of the Company are in the form of debt repayments; abandonment obligations; settlements of derivative financial instruments; lease commitments relating to corporate offices and ocean-going vessels; firm commitments for gathering, processing and transmission services; minimum work commitments under various international agreements; other service contracts and fixed price commodity sales contracts.

Additional disclosure of the Company's debt repayment obligations and significant commitments can be found in notes 7 and 12 to the Consolidated Financial Statements. A discussion of the Company's derivative financial instruments and commodity sales contracts can be found in the next section of this MD&A.

The following table includes the Company's expected future payment commitments and estimated timing of such payments.

Commitments	Recognized in financial statements	Total	Payments due by period ^{1,2} (millions of dollars)					
			Less than 1 year	1-3 years	4-5 years	6-10 years	11-15 years	After 15 years
Long-term debt	Yes – Liability	2,457	241	948	318	12	577	361
Abandonment obligations ³	Yes – Partially accrued as liability	2,639	23	96	79	181	604	1,656
Office leases	No	195	23	40	34	91	7	—
Ocean-going vessel leases	No	159	85	74	—	—	—	—
Transportation and processing commitments	No	1,012	150	206	152	281	158	65
Minimum work commitments ⁴	No	327	269	58	—	—	—	—
Other service contracts	No	143	86	21	8	19	9	—
Stock options and cash units ⁵	Yes – Partially accrued as liability	282	160	122	—	—	—	—
Total		7,214	1,037	1,565	591	584	1,355	2,082

¹ Payments exclude ongoing operating costs related to certain leases, interest on long-term debt, and payments made to settle derivative contracts.

² Payments denominated in foreign currencies have been translated at the December 31, 2004 exchange rate.

³ The abandonment obligation represents management's probability weighted, undiscounted best estimate of the cost and timing of future dismantlement, site restoration and abandonment obligations based on engineering estimates and in accordance with existing legislation and industry practice.

⁴ Minimum work commitments include contracts awarded for capital projects and those commitments related to exploration or drilling obligations.

⁵ The liability for stock options and cash units recognized on the balance sheet is based on the Company's year end stock price and the number of options and cash units outstanding, adjusted for vesting terms. The amount included in this table includes the full value of unvested options and cash units. Timing of payments is based on vesting and expiry. Actual payments are dependent on the Company's stock price at the time of exercise.

Derivative Financial Instruments and Commodity Sales Contracts

The Company manages its exposure to fluctuations in foreign exchange rates, interest rates, electricity costs and commodity prices in part through the use of derivative financial instruments and commodity sales contracts. The accounting policy with respect to derivative financial instruments and commodity sales contracts is set out in note 1(k) to the Consolidated Financial Statements. Derivative financial instruments and commodity sales contracts outstanding at December 31, 2004, including their respective fair values, are detailed in notes 11 and 12 to the Consolidated Financial Statements.

During 2004, the Company had commodity price derivative financial instruments covering 79,000 bbls/d or 35% of the Company's 2004 worldwide oil and liquids production and 55 mmcfd or 6% of the Company's 2004 North American natural gas production. This resulted in a net decrease to recorded sales of \$480 million (2003 – \$194 million decrease; 2002 – \$75 million increase). At December 31, 2004, the Company had outstanding commodity price derivative contracts that cover approximately 6,000 bbls/d (2%) of the Company's anticipated 2005 worldwide oil and liquids production. An additional 15 mmcfd (2%) of anticipated 2005 North American natural gas production has been committed under fixed price commodity sales contracts. The Company's outstanding commodity price derivative contracts have been designated as hedges of the Company's anticipated future commodity sales. See notes 11 and 12 to the Consolidated Financial Statements for additional details regarding the contracts outstanding at year end.

In order to support the Company's investments in natural gas projects outside North America and the North Sea, Talisman has entered into a number of long-term sales contracts. In conjunction with the PM-3 CAA

development project the Company has entered into a long-term firm supply contract for approximately 100 mmcfd at prices referenced to the Singapore fuel oil spot market. The majority of Talisman's Corridor natural gas production in Indonesia is currently sold to Caltex under long-term sales agreements, with the majority of the natural gas sales exchanged for crude oil on an energy equivalent relationship. The crude oil received from Caltex is then sold offshore. Sales to Singapore from Corridor are also under long-term sales agreements referenced to the spot price of fuel oil in Singapore. During 2004, the Company signed a long term contract to sell 2.3 tcf of Corridor natural gas to West Java, over a 17 year period with gas sales commencing in 2007, at a price of US\$1.91/mcf, with no associated transportation costs. The Company's share of sales will be approximately 810 bcf based on its 36% interest. The Company anticipates having sufficient production to meet all future delivery commitments.

Effective January 1, 2004, the Company's US dollar cross currency and interest rate swap contracts were no longer designated as hedges of the £250 million Eurobond, which resulted in a revaluation of this debt and a deferred gain of \$17 million which is being amortized over the period to 2009. The swap contracts were terminated in 2004 for net cash proceeds of \$138 million and resulted in an additional gain of \$15 million. The termination of these contracts did not accelerate recognition of the deferred gain into income.

The Company has established a system of internal controls to minimize risks associated with its derivatives program and credit risk associated with derivatives counterparties. The Board of Directors has authorized the Company to enter into commodity derivative agreements, which in aggregate do not exceed 40% of total estimated production. With the current high commodity prices and the Company's strong balance sheet, management does not believe the capital expenditure program is under significant risk and has not actively renewed the derivatives program.

Summary of Quarterly Results

The following is a summary of quarterly results of the Company for the eight most recently completed quarters:

(millions of Canadian dollars, unless otherwise stated)		Three months ended			
2004	Total Year	Dec. 31	Sept. 30	June 30	March 31
Gross Sales	6,874	1,828	1,788	1,705	1,553
Total revenue	5,355	1,402	1,355	1,337	1,261
Net income ¹	663	121	122	197	223
Net income available to common shareholders ²	677	121	122	200	234
Total assets	12,408	12,408	12,407	13,007	12,290
Total long-term liabilities	5,934	5,934	5,883	6,100	5,860
Capital expenditures					
Exploration	952	250	280	200	222
Development	1,586	478	407	309	392
Per common share (dollars)					
Net income ^{1,2}	1.77	0.32	0.32	0.52	0.61
Diluted net income ^{2,4}	1.74	0.31	0.31	0.51	0.60
Daily average production					
Oil and liquids (bbls/d)	228,434	235,612	218,441	229,579	230,136
Natural gas (mmcf/d) ³	1,259	1,292	1,263	1,244	1,236
Total (mboe/d)	438	451	429	437	436
2003 (Restated)					
Gross Sales	5,610	1,351	1,272	1,220	1,767
Total revenue	4,598	1,128	1,077	1,023	1,370
Net income ¹	1,012	108	128	202	574
Net income available to common shareholders ²	990	103	122	197	568
Total assets	11,780	11,780	11,634	11,481	11,849
Total long-term liabilities	5,544	5,544	5,594	5,473	5,981
Capital expenditures					
Exploration	784	221	215	165	183
Development	1,396	437	360	327	272
Per common share (dollars)					
Net income ^{1,2}	2.56	0.27	0.32	0.51	1.46
Diluted net income ^{2,4}	2.53	0.24	0.31	0.50	1.44
Daily average production					
Oil and liquids (bbls/d)	216,716	229,166	202,008	188,682	247,369
Natural gas (mmcf/d)	1,090	1,138	1,064	1,061	1,096
Total (mboe/d)	398	419	379	365	430

¹ Net income and net income before discontinued operations and extraordinary items are the same.

² Net income available to common shareholders, net income per share and diluted net income per share are after preferred security charges and have been restated to include the gain on redemption of preferred securities in 2004. See note 17 to the Consolidated Financial Statements.

³ Includes gas acquired for injection and subsequent resale of 5 mmcf/d in Total Year, 8 mmcf/d in June and March, and 3 mmcf/d in Dec. and Sept.

⁴ Diluted net income per common share is calculated using the treasury stock method, which gives effect to the potential dilution that could occur if convertible instruments, such as stock options, were exercised in exchange for common shares. However, since inception of the Company's Stock Appreciation Rights Plan, only approximately 2% of stock options have been exercised for common shares, therefore the dilution was insignificant.

The following discussion highlights some of the more significant factors that impacted net income in the eight most recently completed quarters.

During the fourth quarter of 2004, revenue increased over the previous quarter as increases in total volumes combined with higher gas prices to more than offset the impact of a stronger Canadian dollar and increased hedging losses. Net income remained relatively constant in the quarter as reductions in stock-based compensation, operating expenses and dry hole costs were offset by increases in DD&A, impairments and G&A expenses as well as a loss on disposal of fixed assets.

In the third quarter, revenue rose over the second quarter as the increase in oil prices more than offset the reduction in production, resulting from maintenance shutdowns. Net income in the third quarter declined from the previous quarter, as the increase in revenue was more than offset by increases in hedging losses, dry hole costs, exploration expenses and current income taxes. In the first two quarters of 2004, revenue continued to rise due to increases in both commodity prices and production partially offset by increased hedging losses. These factors combined with the benefit of tax rate reductions to increase net income in the first quarter of 2004 over the last quarter of 2003.

A higher charge for stock-based compensation and reduced tax rate reductions resulted in a drop in net income during the second quarter of 2004 from the previous quarter.

In the first quarter of 2003, the gain on the sale of the Sudan operations increased net income by \$296 million. The sale of these operations contributed to the drop in revenues and royalties during the following three quarters of 2003, which was partially offset by production increases in other areas and continued high commodity prices. Net income during the second quarter of 2003 was increased by \$160 million due to a reduction in the Canadian federal and provincial tax rates. The Company began recording stock-based compensation in the second quarter of 2003. The second quarter's net income was reduced by a \$105 million (\$70 million after tax) catch-up expense relating to outstanding stock options. The third and fourth quarters of 2003 included an additional \$80 million (\$50 million after tax) of stock-based compensation expense.

Application of Critical Accounting Policies and the Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect reported assets and liabilities, disclosures of contingencies and revenues and expenses. Management is also required to adopt accounting policies that require the use of significant estimates. Actual results could differ materially from those estimates. A summary of significant accounting policies adopted by Talisman can be found in note 1 to the Consolidated Financial Statements. In assisting the Company's Audit Committee to fulfill its financial statement oversight role, management regularly meets with the Committee to review the Company's significant accounting policies, estimates and any significant changes thereto including those discussed below.

Management believes the most critical accounting policies, including judgments in their application, that may have an impact on the Company's financial results relate to the accounting for property, plant and equipment, asset retirement obligation and goodwill. The rate at which the Company's assets are depreciated or otherwise written off and the asset retirement liability provided for, with the associated accretion expensed to the income statement, are subject to a number of judgments about future events, many of which are beyond management's control. Reserves recognition is central to much of the accounting for an oil and gas company as described below.

Reserves Recognition

Underpinning Talisman's oil and gas assets and goodwill are its oil and gas reserves. Detailed rules and industry practice, to which Talisman adheres, have been developed to provide uniform reserves recognition criteria. However, the process of estimating oil and gas reserves is inherently judgmental. There are two principal sources of uncertainty, technical and commercial. Technical reserves estimates are made using available geological and reservoir data as well as production performance data. As new data becomes available, including actual reservoir performance, reserves estimates may change. Reserves can be classified

as proved or probable with decreasing levels of certainty as to the likelihood that the reserves will be ultimately produced.

Reserves recognition is also impacted by economic considerations. In order for reserves to be recognized they must be reasonably certain of being produced under existing economic and operating conditions, which is viewed as being at year end commodity prices with a cost profile based on current operations. In particular, in international operations consideration includes the status of field development planning and gas sales contracts. As economic conditions change, primarily as a result of changes in commodity prices and, to a lesser extent, operating and capital costs, marginally profitable production, typically experienced in the later years of a field's life cycle, may be added to reserves or conversely may no longer qualify for reserves recognition.

The Company's reserves and revisions to those reserves, though not separately reported on the Company's balance sheet or income statement, impact the Company's reported net income through the amortization of the Company's property, plant and equipment (PP&E), asset and goodwill impairments and the provision for future asset retirement obligations.

The Reserves Committee of Talisman's Board of Directors reviews the Company's reserves booking process and related public disclosures and the report of the internal qualified reserves evaluator (IQRE). The primary responsibilities of the Reserves Committee of the Board of Directors include, amongst other things, reviewing the Company's reserves booking process and recommending to the Board of Directors of Talisman the Company's annual statement of reserves data and other oil and gas information. The IQRE reports the Company's annual reserves data to the Reserves Committee and delivers a regulatory certificate regarding proved reserves and their related cash flows.

Depreciation, Depletion and Amortization Expense (DD&A)

A significant portion of the Company's PP&E is amortized based on the unit of production method with the remaining assets being amortized equally over their expected useful lives. The unit of production method attempts to amortize the asset's cost over its proved oil and gas reserves base. Accordingly, revisions to reserves or changes to management's view as to the operational life span of an asset will impact the Company's future DD&A expense.

As outlined in the Company's DD&A accounting policy and PP&E notes (notes 1(d) and 5 to the Consolidated Financial Statements), \$1.2 billion (2003 – \$866 million) of the Company's PP&E is not currently subject to DD&A. Approximately one quarter of these costs (\$255 million) relate to the Angostura development project, which came on production in January 2005, at which time amortization commenced. The remainder of the \$1.2 billion of non-depleted capital relates to the costs of other development projects (\$478 million) which will be amortized when production commences, the costs of acquired unproved reserves (\$133 million) and incomplete drilling activities, including those wells under evaluation or awaiting commencement of production (\$284 million). Uncertainty exists with the treatment of these costs. For example, if the evaluation of the acquired probable reserves or recently drilled exploration wells were determined to be

unsuccessful, the associated capitalized costs would be expensed in the year such determination is made, except that in the case of acquired probable reserves associated with producing fields, these costs would be amortized over the reserve base of the associated producing field. Accordingly, the rate at which these costs are written off depends on management's view of the likelihood of the existence of economically producible reserves.

Successful Efforts Accounting

The successful efforts method is used to account for oil and gas exploration and development costs. Acquisition costs and development costs are capitalized and depleted using the unit of production method. Costs of drilling unsuccessful exploration wells and all other exploration costs, including geological and geophysical costs, are expensed.

The alternative method of accounting for oil and gas exploration and development costs is the full cost method. Under this method, costs of unsuccessful exploration wells as well as all other exploration costs are capitalized and added to the PP&E balance to be depleted on a unit of production basis in the future.

The differences between the full cost and successful efforts methods of accounting make it difficult to compare net income between companies that use different methods of accounting.

Asset Impairments

The Company's oil and gas assets and goodwill are subject to impairment tests. An impairment charge is recorded in the year an asset is determined to be impaired under the successful efforts method. Individual oil and gas assets are considered impaired under the successful efforts method if their fair value falls below their carrying value. Goodwill is considered to be impaired if its fair value, principally determined based on discounted cash flows, falls below its carrying value. Both tests require management to make assumptions regarding cash flows well into the distant future that are subject to revisions due to changes in commodity prices, costs, recoverable reserves, production profiles and in the case of goodwill, discount rates. During the past three years, isolated asset impairments have occurred (2004 – \$31 million, 2003 – \$30 million; 2002 – \$74 million), however, it is possible that future impairments may be material.

Purchase Price Allocations

The costs of corporate and asset acquisitions are allocated to the acquired assets and liabilities based on their fair value at the time of acquisition. In many cases the determination of fair value requires management to make certain assumptions and estimates regarding future events. Typically in determining fair value, management develops a number of possible future cash flow scenarios to which probabilities are judgmentally assigned. The allocation process is inherently subjective and impacts the amounts assigned to the various individually identifiable assets and liabilities as well as goodwill. The acquired assets and liabilities may span multiple geographical segments and may be amortized at different rates, or not at all as in the case of goodwill or initially for acquired probable reserves. Accordingly, the allocation process

impacts the Company's reported assets and liabilities and future net income due to the impact on future depreciation, depletion and amortization expense and impairment tests.

Asset Retirement Obligations

Upon retirement of its oil and gas assets, the Company anticipates incurring substantial costs associated with abandonment and reclamation activities. Estimates of the associated costs are subject to uncertainty associated with the method, timing and extent of future retirement activities. Accordingly, the annual expense associated with future abandonment and reclamation activities is impacted by changes in the estimates of the expected costs and reserves. The total undiscounted abandonment liability is currently estimated at \$2.6 billion, which is based on management's probability weighted estimate of costs and in accordance with existing legislation and industry practice.

As indicated in the MD&A section entitled New Canadian Accounting Pronouncements, the accounting for Asset Retirement Obligations was adopted on a retrospective basis effective January 1, 2004. Under these accounting requirements, the fair value of the Company's Asset Retirement Obligations (ARO) has been recorded as a liability on the Company's balance sheet. In determining the fair value of the Company's ARO liability, management developed a number of possible abandonment scenarios to which probabilities were judgmentally assigned. At December 31, 2004, the discounted fair value of the Company's ARO liability is \$1.3 billion, (2003 – \$1.2 billion). As an indication of possible future changes in the estimated liability, if all of the Company's abandonment obligations could be deferred by one additional year, the fair value of the liability would have decreased by approximately \$60 million.

Foreign Exchange Accounting

Talisman's worldwide operations expose the Company to transactions denominated in a number of different currencies, which are required to be translated into one currency for financial statement reporting purposes. Talisman's foreign currency translation policy, as detailed in note 1(i) to the Consolidated Financial Statements, is designed to reflect the economic exposure of the Company's operations to the various currencies. The adoption of the US dollar, effective for 2002, as the Company's functional currency is a reflection of Talisman's overall exposure to US dollar denominated transactions, assets and liabilities; oil prices are largely denominated in US dollars as is much of the Company's corporate debt and international capital spending and operating costs. However, the Company's operations in the UK and Canada are largely self-sufficient (self-sustaining) and their economic exposure is more closely tied to their respective domestic currencies. Accordingly, these operations are measured in UK pounds sterling and Canadian dollars, respectively. Currently, the Company's foreign exchange translation exposure principally relates to US dollar denominated UK and Canadian oil sales.

As part of the adoption by the Company as at January 1, 2004, of the new accounting guideline on Hedging Relationships, AcG 13 and effective January, 2004, the Eurobond debt, denominated in UK pounds sterling, and the Company's Canadian dollar debt were designated as hedges of the Company's net investments in the UK and Canadian self-

sustaining operations, respectively. As such the unrealized foreign exchange gains and losses resulting from the translation of this debt are deferred and included in a separate component of shareholders' equity described as cumulative foreign currency translation.

Production Sharing Contractual Arrangements

A significant portion of the Company's operations outside North America and the North Sea are governed by production sharing contracts (PSCs). Under PSCs, Talisman, along with other working interest holders, typically bears all risk and costs for exploration, development and production. In return, if exploration is successful, Talisman recovers the sum of its investment and operating costs ('cost oil') from a percentage of the production and sale of the associated hydrocarbons. Talisman is also entitled to receive a share of the production in excess of cost oil ('profit oil'). The sharing of profit oil varies between the working interest holders and the government from contract to contract. The cost oil, together with the Company's share of profit oil represents Talisman's hydrocarbon entitlement (working interest less royalties). Talisman records gross production, sales and reserves based on its working interest ownership. The difference between the Company's working interest ownership and its entitlement is accounted for as a royalty expense. In addition, certain of the Company's contractual arrangements in foreign jurisdictions stipulate that income taxes are paid out of the respective national oil company's entitlement share of production. The Company includes such amounts in income tax expense at the statutory tax rate in effect at the time of production.

The amount of cost oil required to recover Talisman's investment and costs in a PSC is dependent on commodity prices and consequently, Talisman's share of profit oil is also impacted. Accordingly, the amount of royalty paid by Talisman over the term of a PSC and the corresponding net after royalty oil and gas reserves booked by the Company is dependent on the amount of initial investment and past costs yet to be recovered and anticipated future costs, commodity prices and production. As a result, when year end prices decrease, the amount of net after royalty reserves the Company books may increase and vice versa.

New Canadian Accounting Pronouncements

The Canadian Institute of Chartered Accountants (CICA) has issued a number of accounting pronouncements, some of which may impact the Company's reported results and financial position in future periods.

Exchange of Non-monetary Assets

The CICA has issued an exposure draft to amend section 3830 and redefine when a transaction should be measured at fair value rather than book value. Under current rules, a transaction is a non-monetary transaction if the cash component is less than 10% of the value exchanged. The new test will be based on the commercial substance of the transaction and will require an assessment of the timing, amount and risk of the expected cash flows from the assets being exchanged. For example,

if a property that is currently producing is swapped for undeveloped land, the nature of the expected cash flows would be quite different and this transaction would be measured at fair value under the proposed rules. A final standard is expected during the first half of 2005.

Other Comprehensive Income/Financial Instruments

The CICA is expected to issue a new standard in early 2005, effective for the reporting of year-end 2006. The new standard will bring Canadian rules in line with current rules in the US. The standard introduces the concept of "Other Comprehensive Income" to Canadian GAAP and requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. Derivative contracts will be carried on the balance sheet at their mark-to-market value, with the change in value flowing to either net income or other comprehensive income. Gains and losses on instruments that are identified as hedges will flow initially to other comprehensive income and be brought into net income at the time the underlying hedged item is settled. It is expected that this standard will be effective for Talisman's 2006 reporting. Any instruments that do not qualify for hedge accounting will be marked to market with the adjustment (tax effected) flowing through the income statement.

Talisman does not currently have any hedges in place that carry into 2006 so the impact would not be significant based on current positions.

Asset Retirement Obligations

Effective January 1, 2004, the CICA adopted a new accounting standard that changed the method of accruing for costs associated with the retirement of fixed assets which an entity is legally obligated to incur. The standard requires entities to record the fair value of a liability for an asset retirement obligation in the period it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. The Company adopted this new accounting standard on a retrospective basis as at January 1, 2004. See note 6 to the Consolidated Financial Statements. The US has adopted a similar rule commencing January 1, 2003.

The accounting standard required the retroactive restatement of the Company's financial statements upon adoption in 2004. The adjustment required to the December 31, 2003 balance sheet and income statement to implement this change in accounting was as follows:

(millions of dollars, except per share amounts)	As Reported December 31, 2003	Adjustment upon adoption December 31, 2004	Restated December 31, 2003
Property, plant and equipment	9,778	415	10,193
Provision for future site restoration	840	317	1,157
Future income taxes	2,088	39	2,127
Retained Earnings	1,844	59	1,903
DD&A expense	1,443	(8)	1,435
Future income tax (recovery)	(51)	3	(48)
Net income	1,007	5	1,012
Net income per share (\$/share)	2.55	0.01	2.56
Diluted net income per share (\$/share)	2.52	0.01	2.53

Impairments of Long-Lived Assets

The Company adopted the CICA new accounting standard on Impairment of Long-Lived Assets, effective January 1, 2004. Under this standard, if a long-term asset is identified as being impaired, as determined by its undiscounted future cash flows, the amount of impairment is to be calculated based on the asset's fair value (present value of expected future cash flows). This is consistent with the US GAAP methodology. Prior to this standard, the impairment as calculated under Canadian GAAP was based on the asset's undiscounted future cash flows.

Hedge Accounting

The CICA has issued a new accounting guideline on Hedging Relationships, (AcG 13), which was effective for 2004. This guideline, in addition to supplementing and interpreting existing hedging requirements under Canadian GAAP, established certain other conditions required before hedge accounting may be applied. As a result of this new guideline, effective January 1, 2004, the Company's US dollar cross currency swap contracts and interest rate swap contracts were no longer designated as hedges of the Eurobond. These contracts were subsequently terminated in 2004 for proceeds of \$138 million. As a result of these contracts no longer hedging the Eurobond debt, on January 1, 2004, the Company recorded a deferred gain of \$17 million, which will be amortized over the period to 2009, the original term of the contracts. The termination of these contracts did not accelerate the recognition of the deferred gain into income. The debt is now revalued each period at the period end exchange rate. The translation of this debt as at December 31, 2004 resulted in an increase to long-term debt of \$106 million over the amount reported at December 31, 2003.

The Company's long-term debt denominated in UK pounds sterling and Canadian dollars have been designated as hedges of the Company's net investments in the UK and Canadian self-sustaining operations, respectively. Unrealized foreign exchange gains and losses resulting from the translation of this debt are deferred and included in a separate component of shareholders' equity described as cumulative foreign currency translation. Had the Company not designated such debt as hedges of the Company's net investments in its self-sustaining operations, the Company's net income could have been subject to increased volatility in the future upon revaluation into US dollars of UK pounds sterling and Canadian dollar denominated debt.

Variable Interest Entities

The CICA's new accounting guideline on Consolidation of Variable Interest Entities (AcG 15), was effective January 1, 2004. A variable interest entity (VIE) is a corporation, partnership, trust, or any other legal structure used for business purposes that either (i) does not have equity investors with voting rights or (ii) has equity investors that do not provide sufficient financial resources for the entity to support its activities. AcG 15 requires a VIE to be consolidated by a company if that company is subject to a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns, or both. Management has determined that this guideline does not impact the Company's financial position, operating results or cash provided by operating activities.

Outlook for 2005¹

	Estimated for 2005		Actual 2004
Cash provided by operating activities	3.6-3.8 billion		3.1 billion
Exploration and development spending (millions of dollars)	Exploration	Development	Total E&D
North America	571	874	1,445
North Sea	153	872	1,025
Southeast Asia	65	245	310
Algeria	8	47	55
Trinidad	65	35	100
Other	125	—	125
	987	2,073	3,060
			2,538
Production (daily average)	Lower 2005 estimate	Upper 2005 estimate	Actual 2004
Oil and liquids (bbls/d)			
North America	54,000	56,000	57,392
North Sea	117,000	125,000	121,861
Southeast Asia	33,000	37,000	35,644
Algeria	15,000	17,000	13,537
Trinidad	12,000	16,000	—
	231,000	251,000	228,434
Natural gas (mmcf/d)			
North America	920	940	885
North Sea ²	110	120	114
Southeast Asia	255	285	260
	1,285	1,345	1,259
Barrels of oil equivalent (mboe/d)	445	475	438
Commodity price and exchange rate assumptions	Estimated for 2005	Actual 2004	
US\$/bbl WTI oil price	40.00	41.40	
US\$/mmbtu NYMEX natural gas price	6.25	6.09	
US\$/C\$ exchange rate	0.80	0.77	
C\$/£ exchange rate	2.25	2.38	

1 A 2005 estimate of net income and net income per share has not been provided due to the inherent difficulties of estimating certain non-cash expenses, such as dry hole, property impairments and non-cash stock based compensation. The Outlook for 2005 excludes acquisitions and dispositions, notably the Norway acquisition announced on February 1, 2005.

2 Includes gas acquired for injection and subsequent resale (of 23, 23, and 5 mmcf/d in lower estimate, upper estimate and actual 2004, respectively).

Talisman expects to increase production 2-8% in 2005. Production for 2005 is expected to average approximately 445,000-475,000 boe/d with most of the increase coming from Trinidad, Malaysia and North America.

Unit operating costs are expected to decrease by 5-7% largely due to a projected stronger Canadian dollar and the commencement of low cost production in Trinidad. However, unit production costs, in addition to being impacted by currency exchange rates are dependent on achieving expected production levels. Net capital spending is expected to be \$3.1 billion and excludes significant corporate and asset acquisitions. The Company anticipates participating in the drilling of 525 North American and 102 international wells during 2005 (gross).

North America

In 2005, natural gas will continue to be the focus of the Company's exploration activities in North America, including deep gas exploration in Western Canada and the ongoing drilling program in northeastern United States, supplemented by low risk oil projects. North American natural gas production in 2005 is expected to increase between 3-5% to average between 920-940 mmcf/d, while oil and liquids is expected to average 54,000-56,000 bbls/d, as the Company will spend almost 90% of the North America budget on natural gas exploration and development. The Company expects to spend \$1.4 billion on capital projects and drilling in 2005, virtually unchanged from 2004. The Company plans to participate in approximately 525 wells in 2005, including 10-12 high

impact exploration wells. Unit operating costs are expected to increase slightly to approximately \$5.50/boe due to higher taxes, processing costs and water handling charges.

North Sea

North Sea production is expected to average 117,000-125,000 bbls/d and 110-120 mmcf/d in 2005. The Company's North Sea strategy is to focus on development projects and exploration opportunities adjacent to core operated properties and infrastructure. Capital spending is planned to increase by 102% over 2004, to just over \$1.0 billion, with 85% related to development projects. The Company plans to drill 30 gross development wells (including service wells) and up to 10 gross exploration wells. This increase in spending is driven by the program to develop the Tweedsmuir field, with first production expected late in 2006. Total North Sea operating expenses are expected to decrease in 2005 due in part to a weakening of the pound sterling against the Canadian dollar. At planned exchange rates (approximately £1=C\$2.25) unit operating costs could be in the \$10.50-12.00/boe range.

Southeast Asia

Natural gas sales in Indonesia are expected to average 150-170 mmcf/d in 2005. The Phase 2 expansion of the gas processing facilities at Suban in the Corridor PSC accounts for \$55 million of the planned total capital spending of \$75 million in Indonesia during 2005. Oil and liquids production in Indonesia is expected to average 5,000-7,000 bbls/d with the expiry of the Tanjung and Jambi contracts in late 2004 and early 2005.

During 2005, Talisman's oil and liquids production in Malaysia/Vietnam is expected to average between 28,000-30,000 bbls/d. Natural gas production is expected to average 105-115 mmcf/d during 2005.

Total forecasted capital spending during 2005 in Malaysia/Vietnam is expected to be \$235 million. The Block PM-305 South Angsi project will be completed at a cost of \$42 million, with first oil is expected mid-2005. Development in PM-3 CAA will continue. The sanction of the PM3 Northern Fields and other new field developments are planned for a total cost of \$63 million in 2005. A total of \$55 million is planned for exploration activities, including one well on Block PM-3, up to six wells on Block PM-305, up to two wells in Block 46/02 and one well on Block PM-314.

Operating costs in Southeast Asia are expected to decrease to approximately \$2.60/boe in 2005 with additional oil volumes from PM-305 in Malaysia and additional anticipated natural gas sales in Indonesia.

Algeria

Production from the Ourhoud and MLN fields in Algeria is expected to average 15,000-17,000 bbls/d in 2005. Unit operating costs are expected to fall due to higher production. A capital budget of \$55 million is estimated and includes drilling 10 wells in Ourhoud, four wells in Greater MLN, the expansion of the Greater MLN facility for full pressure maintenance and the start of the MLSE development.

Trinidad

With the completion of the Angostura oil and gas development in 2004, spending will drop in 2005. Capital spending is budgeted at \$100 million, with approximately two-thirds directed towards exploration, with the drilling

of 8 exploration wells, including two onshore wells. Production in Trinidad is expected to average 12,000-16,000 bbls/d.

Other

The Company is exploring in South America where it expects to spend \$21 million in 2005 on exploration drilling in Peru and Colombia. The Company has budgeted to spend \$22 million in Alaska during 2005. The Company also plans to spend an estimated \$15 million in Qatar, which will include the drilling of an exploration well in Block 10.

Currently, Talisman has committed approximately 2% of its anticipated 2005 North American natural gas production under commodity sales contracts at an average price of C\$3.50/mcf. In addition, approximately 6,000 bbls/d of the Company's 2005 anticipated oil and liquids production has been hedged at an average price of US\$26.97/bbl.

A summary of the contracts outstanding at year end can be found in notes 11 and 12 to the Consolidated Financial Statements. Additional discussion of the Company's commodity price hedging program can be found in the MD&A section entitled 'Derivative Financial Instruments and Commodity Sales Contracts'.

Liquidity

The Company's 2005 year end debt position is anticipated to remain relatively unchanged, with cash from operating activities sufficient to fund capital spending, proposed share buy backs and dividend payments. Significant acquisitions or dispositions, a change from expected commodity prices or changes in the amount of share repurchases would impact the Company's projected 2005 year end net debt position.

Sensitivities

Talisman's financial performance is affected by factors such as changes in production volumes, commodity prices and exchange rates. The estimated impact of these factors on the Company's 2005 financial performance is summarized in the following table and is based on a WTI oil price of US\$40/bbl, a NYMEX natural gas price of US\$6.25/mmmbtu and exchange rates of C\$1=US\$0.80 and £1=C\$2.25.

Approximate Impact in 2005

	Net Income	Cash Provided by Operating Activities
(millions of dollars)		
Volume changes		
Oil – 1,000 bbls/d	5	8
Natural gas – 10 mmcf/d	6	14
Price changes ¹		
Oil – US\$1.00/bbl	51	55
Natural gas (North America) ² – C\$0.10/mcf	18	24
Exchange rate changes		
US\$ increased by US\$0.01	34	50
£ increase by C\$0.028	(1)	3

¹ The impact of commodity contracts outstanding for 2005 has been included.

² Price sensitivity on natural gas relates to North American natural gas only. The Company's exposure to changes in North Sea and Malaysia/Vietnam natural gas prices is not material. Most of the Indonesia natural gas price is based on the price of crude oil and accordingly has been included in the price sensitivity for oil except for a small portion which is sold at a fixed price.

Risks and Uncertainties

Talisman is exposed to a number of risks inherent in exploring for, developing and producing crude oil and natural gas. This section describes the risks and other matters that would be most likely to influence an investor's decision to purchase securities of Talisman.

The process of estimating oil and gas reserves is complex and involves a significant number of decisions and assumptions in evaluating available geological, geophysical, engineering and economic data; therefore, reserves estimates are inherently uncertain. Talisman prepares all of its reserves information internally. The Company may adjust estimates of proved reserves based on production history, results of exploration and development drilling, prevailing oil and gas prices and other factors, many of which are beyond the Company's control. In addition, there are numerous uncertainties in forecasting the amounts and timing of future production, costs, expenses and the results of exploration and development projects. All estimates are, to some degree, uncertain and classifications of reserves are only attempts to define the degree of uncertainty involved. For these reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, the classification of such reserves based on risk of recovery and the standardized measure of discounted future net cash flows, prepared by different engineers or by the same engineers at different times, may vary substantially. Talisman's actual production, taxes and development and operating expenditures with respect to its reserves will likely vary from such estimates, and such variances could be material.

Estimates with respect to reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reservoirs, rather than upon actual production history. Estimates based on these methods generally are less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations, which may be material, in the estimated reserves.

The Company's future success depends largely on its ability to find, develop or acquire additional oil and gas reserves that are economically recoverable. Exploration and development drilling may not result in commercially productive reserves. Successful acquisitions require an assessment of a number of factors, many of which are uncertain. These factors include recoverable reserves, exploration potential, future oil and gas prices, operating costs and potential environmental and other liabilities. Such assessments are inexact and their accuracy is inherently uncertain.

The Company's operations may be adversely affected by changes in governmental policies and legislation or social instability or other political or economic developments which are not within the control of Talisman including, among other things, a change in crude oil or natural gas pricing policy, the risks of war, terrorism, abduction, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, taxation policies, economic sanctions, the imposition of specific drilling obligations, the development and abandonment of fields, fluctuating exchange rates and currency controls. In addition,

both Indonesia and Algeria are members of the Organization of Petroleum Exporting Countries ("OPEC"). Talisman's operations in these countries may therefore be impacted by the application of OPEC production quotas. Indonesia, Algeria, Colombia and Peru have been subject to recent economic or political instability and social unrest, military or rebel hostilities. In addition, Talisman regularly evaluates opportunities worldwide, and may in the future engage in projects or acquire properties in other nations that are experiencing economic or political instability and social unrest or military hostilities or are subject to United Nations or United States sanctions.

Oil and gas drilling and producing operations are subject to many risks including the possibility of fire, explosions, mechanical failure, pipe failure, chemical spills, accidental flows of oil, natural gas or well fluids, sour gas releases, and other occurrences or accidents which could result in personal injury or loss of life, damage or destruction of properties, environmental damage, interruption of business, regulatory investigations and penalties and liability to third parties. The Company has developed a comprehensive health, safety and environment (HSE) management framework to mitigate physical risks. The Company also mitigates insurable risks to protect against significant losses by maintaining a comprehensive insurance program, while maintaining levels and amounts of risk within the Company which management believes to be acceptable. Talisman believes its liability, property and business interruption insurance is appropriate to its business and consistent with common industry practice, although such insurance will not provide coverage in all circumstances.

Talisman's financial performance is highly sensitive to prevailing prices of crude oil and natural gas. Fluctuations in crude oil or natural gas prices could have a material adverse effect on the Company's operations and financial condition, the value of its oil and natural gas reserves, and its level of spending for oil and gas exploration and development. Prices for crude oil and natural gas fluctuate in response to changes in the supply of and demand for crude oil and natural gas, market uncertainty and a variety of additional factors that are largely beyond the Company's control. Oil prices are determined by international supply and demand. Factors which affect crude oil prices include the actions of OPEC, world economic conditions, government regulation, political stability in the Middle East and elsewhere, the availability of alternative fuel sources and weather conditions. Most natural gas prices realized by Talisman are affected primarily by North American supply and demand, weather conditions and by prices of alternative sources of energy. The development of oil and natural gas discoveries in offshore areas is particularly dependent on the outlook for oil and natural gas prices because of the large amount of capital expenditure required for development prior to commencing production.

A substantial and extended decline in the prices of crude oil or natural gas could result in delay or cancellation of drilling, development or construction programs, or curtailment in production or result in unutilized long-term transportation commitments all of which could have a material adverse impact on the Company. The amount of cost oil required to

recover Talisman's investment and costs in various production sharing contracts is dependent on commodity prices, with higher commodity prices resulting in a lower amount of net after royalty oil and gas reserves booked by the Company.

Talisman conducts an annual assessment of the carrying value of its assets in accordance with Canadian GAAP. If oil and natural gas prices decline, the carrying value of the Company's assets could be subject to downward revisions, which could adversely affect Talisman's reported income for the periods in which the revisions are made. However, Talisman believes that estimates of forward-looking prices it uses in its planning process are realistic.

From time to time, Talisman is the subject of litigation arising out of the Company's operations. Damages claimed under such litigation, including the litigation discussed below may be material or may be indeterminate and the outcome of such litigation may materially impact the Company's financial condition or results of operations. While Talisman assesses the merits of each lawsuit and defends itself accordingly, the Company may be required to incur significant expenses or devote significant resources to defend itself against such litigation. These claims are not currently expected to have a material impact on the Company's financial position.

Talisman continues to be subject to a lawsuit brought by the Presbyterian Church of Sudan and others commenced in November 2001 under the Alien Tort Claims Act in the United States District Court for the Southern District of New York. The lawsuit, which is seeking class action status, alleges that the Company conspired with, or aided and abetted, the Government of Sudan to commit violations of international law in connection with the Company's now disposed of interest in oil operations in Sudan. In December 2004, Talisman filed a motion for judgement on the pleadings, seeking dismissal of the lawsuit on the grounds that the court lacks subject matter jurisdiction to hear the lawsuit, and filed its opposition papers to the certification of the lawsuit as a class action. No decision is expected on either of these motions prior to the end of March 2005. Talisman believes the lawsuit to be entirely without merit and is continuing to vigorously defend itself and does not expect the lawsuit to have a material adverse effect.

All phases of the oil and natural gas business are subject to environmental regulation pursuant to a variety of laws and regulations in the countries in which Talisman does business. These regulatory regimes are laws of general application that apply to the Company's business in the same manner as they apply to other companies or enterprises in the energy industry. Environmental legislation imposes, among other things, restrictions, liabilities and obligations in connection with the generation, handling, storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances to the environment. Environmental legislation also requires that pipelines, wells, facility sites and other properties associated with Talisman's operations be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Certain types of operations, including exploration and development projects, may

require the submission and approval of environmental impact assessments or permit applications. In some cases, exploration and development activities may be precluded or restricted due to designation of areas as environmentally sensitive areas. Compliance with environmental legislation can require significant expenditures and failure to comply with environmental legislation may result in the imposition of fines and penalties and liability for clean up costs and damages. Additionally, the Company's business is subject to the trend toward increased civil liability for environmental matters. Although Talisman currently believes that the costs of complying with environmental legislation and dealing with environmental civil liabilities will not have a material adverse effect on the Company's financial condition or results of operations, there can be no assurance that such costs in the future will not have such an effect. Talisman expects to incur site restoration costs over a prolonged period as existing fields are depleted. The Company provides for future abandonment and reclamation costs in its consolidated financial statements in accordance with Canadian GAAP. Additional information regarding future abandonment and reclamation costs is set forth in the notes to the annual Consolidated Financial Statements.

In 1994, the United Nations' Framework Convention on Climate Change came into force and three years later led to the Kyoto Protocol (the "Protocol"). The Protocol came into force on February 16, 2005 and requires certain nations to reduce their emissions of carbon dioxide and other greenhouse gases. Under the terms of the Protocol, Canada will be required to reduce its greenhouse gas (GHG) emissions to 6% below 1990 levels over the period beginning in 2008 and ending in 2012. Currently, Canadian oil and gas producers are in discussions with the provincial and federal levels of government regarding implementation mechanisms for the industry. It is premature to predict what impact implementation could have on Canadian oil and gas producers but it is likely that any mandated reduction in GHG emissions will result in increased costs. The federal government has stated that these costs would not be expected to exceed \$15/tonne of carbon dioxide emissions reduced and that producers would not be required to reduce GHG emissions per unit of production by more than 15%. The federal government has also indicated its support for several important principles that are intended to protect the competitiveness of the oil and gas industry beyond 2012, including a 10-year emissions target lock-in period for all new projects and additional flexibility mechanisms for achieving compliance.

The UK has also ratified the Kyoto Protocol, with a reduction commitment of 12.5% below 1990 levels by 2008 – 2012. Talisman's UK installations will participate in the first phase of the European Union Emission Trading Scheme ("EU ETS"), which runs from 2005 to 2007, inclusive. The UK Government's revised National Allocation Plan ("NAP") for the first phase of the EU ETS has yet to be approved by the European Commission. The NAP will specify a cap on carbon dioxide emissions for the covered sectors, the methods for allocating emission allowances to covered installations and the number of emission allowances to be allocated to each covered installation. Cost of compliance will vary with a number of factors including the final allocation numbers and liquidity of the carbon markets.

Other companies operate some of the assets in which Talisman has interests. As a result, Talisman may have limited ability to exercise influence over operations of these assets or their associated costs, which could adversely affect the Company's financial performance.

The success and timing of Talisman's activities on assets operated by others will therefore depend on a number of factors that may be outside of the Company's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and the risk of management practices.

In Canada and the United States, the state or private land owners own oil and gas rights and lease those rights to corporations who are responsible for the development of such rights within the time frames described in the leases. This practice differs distinctly in some foreign countries in which Talisman does or may do business in the future. In those countries, the state often grants interests in large tracts of lands or offshore fields and maintains control over the development of the oil and gas rights, in some cases through equity participation in the exploration and development of the rights. This usually includes the imposition of obligations on Talisman to complete minimum work within specified timeframes. Transfers of interests typically require a state approval, which may delay or otherwise impede transfers. In addition, if a dispute arises in Talisman's foreign operations, the Company may be subject to the exclusive jurisdiction of foreign arbitration tribunals or foreign courts.

The oil and gas industry, both within Canada and internationally, is highly competitive in all aspects of the business, including the acquisition of properties, the exploration for and development of new sources of supply and the marketing of current production. With respect to the exploration, development and marketing of oil and natural gas, the Company's competitors include major integrated oil and gas companies, numerous other independent oil and gas companies, individual producers and operators and national oil companies. A number of the Company's competitors have financial and other resources substantially in excess of those available to the Company. In addition, oil and gas producers in general compete indirectly against others engaged in supplying alternative forms of energy, fuel and related products to consumers.

Talisman's Consolidated Financial Statements are presented in Canadian dollars. Results of operations are affected primarily by the exchange rates between the Canadian dollar, the United States dollar and United Kingdom pounds sterling. These exchange rates have varied substantially in the last five years. Most of the Company's revenue is received in or is referenced to United States dollar denominated prices, while the majority of Talisman's expenditures are denominated in Canadian dollars, United States dollars and United Kingdom pounds sterling. A change in the relative value of the Canadian dollar against the United States dollar would also result in an increase or decrease in Talisman's United States dollar denominated debt, as expressed in Canadian dollars and the related interest expense.

Talisman is also exposed to fluctuations in other foreign currencies.

The success of Talisman is dependent upon its management and the quality of its personnel. Failure to retain current employees or to attract and retain new employees with the necessary skills could have a materially adverse effect on Talisman's growth and profitability.

Forward-Looking Statements

This MD&A contains forward-looking information as contemplated by Canadian securities regulators' Form 51-102F1 and forward-looking statements within the meaning of the United States *Private Securities Litigation Reform Act of 1995* (collectively, "forward-looking statements").

Identifying forward-looking statements

Forward-looking statements are included throughout this MD&A, including among other places, under the headings "Outlook for 2005" and "Economic Assumptions". These statements include, among others, statements regarding:

- anticipated cash flow and cash flow per share;
- estimates of future sales, production and operations or financial performance;
- business plans for drilling, exploration and development;
- the estimated amounts and timing of capital expenditures;
- estimates of operating costs;
- business strategy and plans or budgets,
- outlook for oil and gas prices,
- anticipated liquidity, capital resources and debt levels;
- royalty rates and exchange rates;
- the merits or anticipated outcome of pending litigation; and
- other expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, results of operations or performance.

Statements concerning oil and gas reserves contained in this MD&A under the headings "Depreciation, Depletion and Amortization Expense", "Reserve Replacement", "Asset Impairments", "Outlook for 2005" and elsewhere may be deemed to be forward-looking statements as they involve the implied assessment that the resources described can be profitably produced in the future, based on certain estimates and assumptions.

Often, but not always, forward-looking statements use words or phrases such as: "expects", "does not expect" or "is expected", "anticipates" or "does not anticipate", "plans" or "planned", "estimates" or "estimated", "projects" or "projected", "forecasts" or "forecasted", "believes", "intends", "likely", "possible", "probable", "scheduled" or "positioned", "goal" or "objective" or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

Material factors that could cause actual results to differ materially from those in forward-looking statements

Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated by Talisman and described in the forward-looking statements. These risks and uncertainties include:

- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas, and market demand;
- risks and uncertainties involving geology of oil and gas deposits;
- the uncertainty of reserves estimates and reserves life;
- the uncertainty of estimates and projections relating to production, costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing;
- uncertainties related to the litigation process, such as possible discovery of new evidence or acceptance of novel legal theories and the difficulties in predicting the decisions of judges and juries;
- risks in conducting foreign operations (for example, political and fiscal instability or the possibility of civil unrest or military action);
- general economic conditions;
- the effect of acts of, or actions against international terrorism; and
- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld.

The foregoing list of risks and uncertainties is not exhaustive. Additional information on these and other factors which could affect the Company's operations or financial results are included under the headings "Risks and Uncertainties" and "Outlook for 2005" and elsewhere in this MD&A. Additional information may also be found in the Company's other reports on file with Canadian securities regulatory authorities and the United States Securities and Exchange Commission.

No obligation to update forward-looking statements

Forward-looking statements are based on the estimates and opinions of the Company's management at the time the statements are made. The Company assumes no obligation to update forward-looking statements should circumstances or management's estimates or opinions change.

Advisory

Reserves Data and Other Oil and Gas Information

Talisman's disclosure of reserves data and other oil and gas information is made in reliance on an exemption granted to Talisman by Canadian securities regulatory authorities, which permits Talisman to provide disclosure in accordance with US disclosure requirements. The information provided by Talisman may differ from the corresponding information prepared in accordance with Canadian disclosure standards under National Instrument 51-101 (NI 51-101). Talisman's proved reserves have been calculated using the standards contained in Regulation S-X of the U.S. Securities and Exchange Commission. U.S. practice is to disclose net proved reserves after deduction of estimated royalty burdens and including net profits interests. Talisman makes additional voluntary disclosure of gross proved reserves. Probable reserves, which Talisman also makes as voluntary disclosure, have been calculated using the definition for probable reserves set out by the Society of Petroleum Engineers/World Petroleum Congress ("SPE/WPC"). Further information about the differences between the U.S. requirements and the NI 51-101 requirements is set forth under the heading "Note Regarding Reserves Data and Other Oil and Gas Information" in Talisman's Annual Information Form.

The exemption granted to Talisman also permits it to disclose internally evaluated reserves data. While Talisman annually obtains an independent audit of a portion of its reserves, no independent reserves evaluator or auditor was involved in the preparation of the reserves data disclosed in this MD&A.

Report of Management

The Board of Directors is responsible for the Consolidated Financial Statements but has delegated responsibility for their preparation to management.

Management has prepared the Consolidated Financial Statements in accordance with accounting principles generally accepted in Canada (with a reconciliation to accounting principles generally accepted in the United States). If alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has ensured that the Consolidated Financial Statements are presented fairly in all material respects. Management has also prepared the financial information presented elsewhere in the annual report and ensured that it is consistent with information in the Consolidated Financial Statements.

Talisman maintains internal accounting and administrative controls designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that assets are appropriately accounted for and adequately safeguarded.

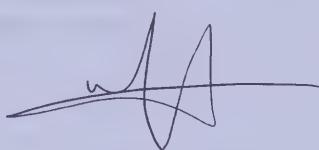
The Board of Directors is responsible for reviewing and approving the Consolidated Financial Statements and Management's Discussion and Analysis and, primarily through its Audit Committee, ensures that management fulfills its responsibilities for financial reporting.

The Audit Committee is appointed by the Board and is composed entirely of unrelated, independent Directors. The Audit Committee meets regularly with management and with the internal and external auditors to discuss internal controls and reporting issues and to satisfy itself that each party is properly discharging its responsibilities. It reviews the Consolidated Financial Statements and the external auditors' report. The Audit Committee also considers, for review by the Board and approval by the shareholders, the engagement or reappointment of the external auditors.

Ernst & Young LLP, the external auditors, have audited the Consolidated Financial Statements in accordance with auditing standards generally accepted in Canada and the standards of the Public Company Accounting Oversight Board (United States) on behalf of the shareholders. Ernst & Young LLP have full and free access to the Audit Committee.



James W. Buckee
President and Chief Executive Officer



Michael D. McDonald
Executive Vice-President, Finance and Chief Financial Officer

March 14, 2005

Auditors' Report

To the Shareholders of Talisman Energy Inc.

We have audited the Consolidated Balance Sheets of Talisman Energy Inc. as at December 31, 2004 and 2003 and the Consolidated Statements of Income, Retained Earnings and Cash Flows for each of the years in the three year period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2004 in accordance with Canadian generally accepted accounting principles. We also report that, in our opinion, these principles have been applied, except for the change in the method of accounting for asset retirement obligations, transportation expenses and hedges as explained in note 2 to the Consolidated Financial Statements on a basis consistent with that of the preceding year.

Ernst & Young LLP

Calgary, Canada

February 28, 2005

Ernst & Young LLP

Chartered Accountants

Consolidated Balance Sheets

(December 31)

(millions of Canadian dollars)	2004	2003
Assets		(restated) (note 2)
Current		
Cash and cash equivalents	38	98
Accounts receivable (note 11)	836	760
Inventories (note 4)	78	100
Prepaid expenses	18	17
	970	975
Accrued employee pension benefit asset (note 18)	61	63
Other assets	64	76
Goodwill (note 3)	466	473
Property, plant and equipment (note 5)	10,847	10,193
	11,438	10,805
Total assets	12,408	11,780
Liabilities		
Current		
Accounts payable and accrued liabilities (notes 6 and 9)	1,302	1,064
Income and other taxes payable	341	154
	1,643	1,218
Deferred credits (notes 11 and 19)	105	57
Asset retirement obligations (note 6)	1,272	1,157
Long-term debt (note 7)	2,457	2,203
Future income taxes (note 15)	2,100	2,127
	5,934	5,544
Contingencies and commitments (notes 11 and 12)		
Shareholders' equity		
Preferred securities (note 8)	—	431
Common shares (note 9)	2,666	2,725
Contributed surplus (note 9)	71	73
Cumulative foreign currency translation (notes 9 and 10)	(150)	(114)
Retained Earnings	2,244	1,903
	4,831	5,018
Total liabilities and shareholders' equity	12,408	11,780

See accompanying notes.

On behalf of the board:



Douglas D. Baldwin
Chairman of the Board



Robert G. Welty
Director

Consolidated Statements of Income

(Years ended December 31)

(millions of Canadian dollars)	2004	2003	2002
	(restated) (see note 2)	(restated) (see note 2)	(restated) (see note 2)
Revenue			
Gross sales	6,874	5,610	5,351
Less hedging loss/(gain)	480	194	(75)
Gross sales, net of hedging	6,394	5,416	5,426
Less royalties	1,124	894	927
Net sales	5,270	4,522	4,499
Other (note 13)	85	76	80
Total Revenue	5,355	4,598	4,579
Expenses			
Operating	1,198	1,039	1,048
Transportation (note 2)	192	181	194
General and administrative	183	152	138
Depreciation, depletion and amortization	1,650	1,435	1,462
Dry hole	311	251	174
Exploration	238	213	185
Interest on long-term debt	158	137	164
Stock-based compensation	171	185	—
Other (note 14)	89	16	113
Total expenses	4,190	3,609	3,478
Gain on sale of Sudan operations (note 19)	—	296	—
Income before taxes	1,165	1,285	1,101
Taxes (note 15)			
Current income tax	478	229	258
Future income tax	(105)	(48)	175
Petroleum revenue tax	129	92	124
	502	273	557
Net income	663	1,012	544
Per common share (Canadian dollars) (note 17)			
Net income	1.77	2.56	1.29
Diluted net income	1.74	2.53	1.27
Average number of common shares outstanding (millions)	383	386	402
Diluted number of common shares outstanding (millions)	390	391	409

Consolidated Statements of Retained Earnings

(Years ended December 31)

(millions of Canadian dollars)	2004	2003	2002
	(restated) (see note 2)	(restated) (see note 2)	(restated) (see note 2)
Retained earnings, beginning of year			
Retained earnings, beginning of year	1,903	1,125	787
Net income	663	1,012	544
Adoption of new accounting policies	—	—	34
Common share dividends	(114)	(90)	(80)
Purchase of common shares (note 9)	(222)	(122)	(136)
Redemption of preferred securities, net of tax (note 8)	23	—	—
Preferred security charges, net of tax	(9)	(22)	(24)
Retained earnings, end of year	2,244	1,903	1,125

See accompanying notes.

Consolidated Statements of Cash Flows

(Years ended December 31)

(millions of Canadian dollars)	2004	2003	2002
	(restated) (see note 2)	(restated) (see note 2)	(restated) (see note 2)
Operating			
Net income	663	1,012	544
Items not involving current cash flow (note 16)	2,030	1,504	1,916
Exploration	238	213	185
Cash flow	2,931	2,729	2,645
Deferred gain on unwound hedges	—	(9)	(43)
Changes in non-cash working capital (note 16)	203	(128)	(187)
Cash provided by operating activities	3,134	2,592	2,415
Investing			
Capital expenditures			
Exploration, development and corporate	(2,565)	(2,218)	(1,874)
Acquisitions (note 3)	(317)	(661)	(244)
Proceeds of resource property dispositions (note 19)	75	1,075	30
Investments	—	(11)	(36)
Changes in non-cash working capital	50	105	26
Cash used in investing activities	(2,757)	(1,710)	(2,098)
Financing			
Long-term debt repaid	(667)	(791)	(1,397)
Long-term debt issued	912	292	1,417
Common shares purchased	(284)	(184)	(184)
Common share dividends	(114)	(90)	(80)
Preferred securities redeemed	(402)	—	—
Preferred security charges	(15)	(38)	(42)
Deferred credits and other	164	28	(21)
Changes in non-cash working capital	(10)	—	—
Cash used in financing activities	(416)	(783)	(307)
Effect of translation on foreign currency cash	(21)	(28)	—
Net (decrease) increase in cash and cash equivalents	(60)	71	10
Cash and cash equivalents, beginning of year	98	27	17
Cash and cash equivalents, end of year	38	98	27

See accompanying notes.

Notes to the Consolidated Financial Statements

(tabular amounts in millions of Canadian dollars ("\$" or "C\$") except as noted)

1. SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements of Talisman Energy Inc. ("Talisman" or the "Company") have been prepared by management in accordance with Canadian generally accepted accounting principles. A summary of the differences between accounting principles generally accepted in Canada and those generally accepted in the United States ("US") is contained in note 21 to these statements.

The Company is in the business of exploration, development, production and marketing of crude oil, natural gas and natural gas liquids.

The preparation of Consolidated Financial Statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

a) **Consolidation**

The Consolidated Financial Statements include the accounts of Talisman and its subsidiaries. A substantial portion of Talisman's activities is conducted jointly with others and the Consolidated Financial Statements reflect only the Company's proportionate interest in such activities.

b) **Inventories**

Product inventories are valued at the lower of average cost and market value. Materials and supplies are valued at the lower of average cost and net realizable value.

c) **Property, plant and equipment**

The successful efforts method is used to account for oil and gas exploration and development costs. Under this method, acquisition costs of oil and gas properties and costs of drilling and equipping development wells are capitalized. Costs of drilling exploratory wells are initially capitalized and, if subsequently determined to be unsuccessful, are charged to dry hole expense. Exploration wells in areas requiring major capital before production can begin are capitalized as long as drilling efforts are underway or firmly planned. Exploration wells are assessed annually, or more frequently as evaluation conditions dictate, for determination of reserves and, as such, success. All other exploration costs, including geological and geophysical costs and annual lease rentals, are charged to exploration expense when incurred. Producing properties and significant unproved properties are assessed annually, or more frequently as economic events dictate, for potential impairment. Any impairment loss is the difference between the carrying value of the asset and its fair value. Fair value is calculated as the present value of estimated expected future cash flows.

d) **Depreciation, depletion and amortization**

Capitalized costs of proved oil and gas properties are depleted using the unit of production method. For purposes of these calculations, production and reserves of natural gas are converted to barrels on an energy equivalent basis.

Successful exploratory wells and development costs are depleted over proved developed reserves while acquired resource properties with proved reserves, including offshore platform costs, are depleted over proved reserves. Acquisition costs of probable reserves are not depleted or amortized while under active evaluation for commercial reserves. Costs are transferred to depletable costs as proved reserves are recognized. At the date of acquisition, an evaluation period is determined after which any remaining probable reserve costs associated with producing fields are transferred to depletable costs; costs not associated with producing fields are amortized over a period not exceeding the remaining lease term.

Costs associated with significant development projects are not depleted until commercial production commences. Unproved land acquisition costs that are individually immaterial are amortized on a straight-line basis over the average lease term until properties are determined to be productive or impaired. Gas plants, net of estimated salvage values, are depreciated on a straight-line basis over their estimated remaining useful lives, not to exceed the estimated remaining productive lives of related fields. Pipelines and corporate assets are depreciated using the straight-line method at annual rates of 7% and 4% to 33%, respectively. Gas plants and pipelines in the North Sea are depreciated using the unit of production method based on the related fields.

e) **Asset retirement obligations**

Effective January 1, 2004 the Company retroactively adopted the Canadian Institute of Chartered Accountants ("CICA") new standard for accounting for asset retirement obligations (ARO). This standard requires that the fair value of the statutory, contractual or legal obligations associated with the retirement and reclamation of tangible long-lived assets be recorded when the related assets are put into use, with a corresponding increase to the carrying amount of the related assets. This corresponding increase to capitalized costs is amortized to earnings on a basis consistent with depreciation, depletion, and amortization of the underlying assets. Subsequent changes in the estimated fair value of the ARO are capitalized and amortized over the remaining useful life of the underlying asset. See note 6 for details.

The ARO liabilities are carried on the consolidated balance sheet at their discounted present value and are accreted over time for the change in their present value, with this accretion charge included in depreciation, depletion and amortization.

Actual expenditures incurred are charged against the accumulated obligation.

f) Capitalized interest

Interest costs associated with major development projects are capitalized until the necessary facilities are completed and ready for use.

g) Royalties

Certain of the Company's foreign operations are conducted jointly with the respective national oil companies. These operations are reflected in the Consolidated Financial Statements based on Talisman's working interest in such activities. All other government stakes, other than income taxes, are considered to be royalty interests. Royalties on production from these joint foreign operations represent the entitlement of the respective governments to a portion of Talisman's share of crude oil, liquids and natural gas production and are recorded using rates in effect under the terms of contracts at the time of production.

h) Petroleum revenue tax

United Kingdom Petroleum Revenue Tax ("PRT") is accounted for using the life of the field method whereby total future PRT is estimated using current reserves and anticipated costs and prices and charged to income based on net operating income as a proportion of estimated future net operating income. Changes in the estimated total future PRT are accounted for prospectively.

i) Foreign currency translation

Effective January 1, 2002, the Company adopted the US dollar as its functional currency. Prior to January 1, 2002, the functional currency of the Company was the Canadian dollar. The Company's financial results have been reported in Canadian dollars as explained below.

The Company's self-sustaining operations, which include the Canadian and UK operations, are translated into US dollars using the current rate method, whereby assets and liabilities are translated at period-end exchange rates while revenues and expenses are converted using average rates for the period. Gains and losses on translation to US dollars relating to self-sustaining operations are deferred and included in a separate component of shareholders' equity described as cumulative foreign currency translation.

The remaining foreign operations are not considered self-sustaining and are translated using the temporal method. Under this method, monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated at rates in effect on the dates the assets were acquired or liabilities were assumed. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Gains and losses on translation are reflected in income when incurred.

The Company's financial results have been reported in Canadian dollars with amounts translated to Canadian dollars as follows: assets and liabilities at the rate of exchange in effect at the applicable balance sheet date and revenues and expenses at the average exchange rates for the periods. The Company's share capital accounts including its preferred securities, common shares and contributed surplus are translated at rates in effect at the time of issuance. Unrealized gains and losses resulting from the translation to Canadian dollars are included in the cumulative foreign currency translation account.

j) Employee benefit plans

The cost of pensions and other retirement benefits earned by employees is determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. There is uncertainty relating to the assumptions used to calculate the net benefit plan expense and accrued benefit obligation which are long term, consistent with the nature of employee future benefits.

The discount rate used to determine the accrued benefit obligation is determined by reference to market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. For purposes of calculating the expected return on plan assets, those assets are valued at fair value. The excess of the cumulative unamortized net actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the fair value of plan assets at the beginning of the year is amortized over the average remaining service life of active employees. The unamortized transitional asset and obligations, past service costs and net actuarial losses are being amortized over the average remaining service period of active employees expected to receive benefits under the benefit plans.

k) Derivative financial instruments and commodity contracts

The Company may enter into derivative financial instruments to hedge against adverse fluctuations in foreign exchange rates, electricity rates, interest rates and commodity prices. Payments or receipts on derivative financial instruments that are designated and effective as hedges are recognized in income concurrently with the hedged transaction and are recorded in the consolidated statements of income and cash flows in the line item associated with the hedged transaction. For example, gains and losses on commodity hedges are included in revenues.

If the derivative financial instrument that has been designated as a hedge is terminated or is no longer designated as part of the hedging relationship, the gain or loss on the hedge at that date is deferred and recognized concurrently with the anticipated transaction. If it is no longer probable that the anticipated transaction will occur substantially as and when identified at the inception of the hedging relationship, the gain or loss on the hedge at that date is recognized immediately. Subsequent changes in the value of the derivative financial instrument are reflected in income. Any derivative financial instrument that does not constitute a hedge is recorded at fair value with any resulting gain or loss reflected in income.

All of the Company's commodity derivative financial instruments outstanding during 2004 met the hedging requirements under Canadian GAAP. The hedging requirements as amended by AcG 13, consist of the designation of the instrument as a hedge, the identification of the nature of the risk exposure being hedged and that there is reasonable assurance that the instrument is expected to be an effective hedge throughout its term. In addition, in the case of anticipated transactions, it is also probable that the transaction designated as being hedged will occur. The Company assesses, both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments that have been designated as hedges are highly effective in offsetting changes in fair value or cash flows of the hedged items.

The Company enters into commodity contracts in the normal course of business including contracts with fixed or optional pricing terms. The contracts outstanding at December 31, 2004 are disclosed in notes 11 and 12 to the Consolidated Financial Statements. The Company's production is expected to be sufficient to deliver all required volumes under these contracts. No amounts are recognized in the Consolidated Financial Statements related to these contracts until such time as the associated volumes are delivered.

l) Income taxes

Talisman uses the liability method to account for income taxes. Under the liability method, future income taxes are based on the differences between assets and liabilities reported for financial accounting purposes from those reported for income tax. Future income tax assets and liabilities are measured using substantively enacted tax rates. The impact of a change in tax rate is recognized in net income in the period in which the tax rate is substantively enacted.

Certain of the Company's contractual arrangements in foreign jurisdictions stipulate that income taxes are to be paid by the respective national oil company out of its entitlement share of production. Such amounts are included in income tax expense at the statutory tax rate in effect at the time of production.

m) Revenue recognition

Revenues associated with the sale of crude oil, natural gas and liquids represent the sales value of the Company's share of petroleum production during the year (the entitlement method). Differences between production and amounts sold are not significant. Amounts received under take-or-pay gas sales contracts in respect of undelivered volumes are accounted for as deferred income and recognized as revenue when volumes are delivered. Transportation expenses are reported as a separate expense and not netted off against revenue. See note 2 to the Consolidated Financial Statements.

n) Stock-based compensation

Talisman has stock options or stock appreciation rights, cash unit plans and deferred share units for employees and directors, which are described in note 9. In 2003, the option plans were amended to provide holders of stock options the choice upon exercise to receive a cash payment in exchange for surrendering the option. Commencing in 2003, as a result of the amendment to the stock option plans, the Company began to use the intrinsic-value method to recognize compensation expense associated with its stock appreciation rights. Obligations are accrued on a graded vesting basis and represent the difference between the market value of the Company's common shares and the exercise price of the options. This obligation is revalued each reporting period based on the changes in the graded vested amount of options outstanding and changes in the market value of the Company's common shares. Prior to 2003, no amount of compensation expense was recognized in the Financial Statements for stock-based compensation.

A liability for the stock-based compensation is included in accounts payable and accrued liabilities.

o) Goodwill

Goodwill represents the excess purchase price over the fair value of identifiable assets and liabilities acquired in business combinations. Effective January 1, 2002, goodwill ceased to be amortized. Goodwill is subject to ongoing annual impairment reviews,

or more frequently as economic events dictate, based on the fair value of reporting units. The fair value of each reporting unit is determined and compared to the book value of the reporting unit. If the fair value of the reporting unit is less than the book value, then a second test is performed to determine the amount of the impairment. The amount of the impairment is determined by deducting the fair value of the reporting unit's individual assets and liabilities from the fair value of the reporting unit to determine the implied fair value of goodwill and comparing that amount to the book value of the reporting unit's goodwill. Any excess of the book value of goodwill over the implied fair value of goodwill is the impairment amount. The Company's reporting units are consistent with the geographic segments included in note 20.

p) Net income and diluted net income per share

Net income per share is calculated by dividing net income after deducting preferred security charges and adding gain on redemption of preferred securities, net of tax, by the weighted average number of common shares outstanding. Diluted net income per share is calculated giving effect to the potential dilution that could occur if convertible instruments, such as stock options, were exercised in exchange for common shares.

The Company uses the treasury method to determine the dilutive impact of convertible instruments. This method assumes that any proceeds from the exercise of a convertible instrument would be used to purchase common shares at the average market price during the period.

q) Cash and cash equivalents

Cash and cash equivalents include short-term investments with an original maturity of three months or less. Cash and cash equivalents are stated at cost, which approximates market value.

r) Measurement uncertainty

To facilitate the timely preparation of the Consolidated Financial Statements, management has made estimates and assumptions regarding certain assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date to the consolidated financial statements. Accordingly actual results may differ from estimated amounts.

Amounts recorded for depreciation, depletion and amortization and amounts used for impairment calculations are based on estimates of oil and natural gas reserves and commodity prices and capital costs required to develop those reserves. By their nature, estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact of differences between actual and estimated amounts on the Consolidated Financial Statement of future periods could be material.

Inherent in the fair value calculation of ARO are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions impact the fair value of the existing ARO liability, a corresponding adjustment is made to the oil and gas property balance.

The values of pension assets and obligations and the amount of pension costs charged to net earnings depend on certain actuarial and economic assumptions which by their nature are subject to material measurement uncertainty.

s) Reclassification

Certain information provided for prior years has been reclassified to conform to the presentation adopted in the current year.

2. CHANGE IN ACCOUNTING POLICIES

a) Asset Retirement Obligation

See note 6 for impact of adoption of new accounting standard.

b) Transportation Expenses

During 2004 the Company began accounting for transportation costs as expenses on a retroactive basis. Previously, these costs had been either netted off against the realized price or included as a component of operating costs, depending on the circumstances in the various geographic segments. Prior year comparatives were restated to reflect this change in accounting policy. The change in accounting has no effect on net earnings but has increased revenue and decreased operating expenses in each year as follows:

	2004	2003	2002
Revenue	125	121	127
Operating expense	(67)	(60)	(67)
Transportation expense	192	181	194
Net income	—	—	—

c) Hedging

In 2003, the CICA issued a new accounting guideline on Hedging Relationships (AcG 13), which is effective for 2004. This guideline, in addition to supplementing and interpreting existing hedging requirements under Canadian GAAP, establishes certain other conditions required before hedge accounting may be applied. Effective January 1, 2004, the Company's US dollar cross currency swap contracts and interest rate swap contracts were no longer designated as hedges of the Eurobond. These contracts were subsequently terminated in 2004 for proceeds of \$138 million. As a result of these contracts no longer hedging the Eurobond debt, on January 1, 2004, the Company recorded a deferred gain of \$17 million. Subsequently, the debt has been revalued based on the December 31, 2004 exchange rate, resulting in an increase to long-term debt of \$106 million. The unrealized gain of \$17 million was deferred and will be amortized over the period to 2009, the original term of the contracts. As all of the necessary criteria have been met this accounting guideline has not impacted the Company's accounting for its commodity price derivative contracts previously designated as hedges of anticipated future commodity sales.

The Company's long-term debt denominated in UK pounds sterling and Canadian dollars has been designated as hedges of the Company's net investments in the UK and Canadian self-sustaining operations, respectively. Unrealized foreign exchange gains and losses resulting from the translation of this debt are deferred and included in a separate component of shareholders' equity described as cumulative foreign currency translation.

3. ACQUISITIONS

The following acquisitions have been accounted for using the purchase method and the results have been included in these Consolidated Financial Statements from the date of acquisition.

Property Acquisitions

During 2004, Talisman completed a number of individually insignificant oil and gas property and corporate acquisitions for a total cost of \$330 million, comprised of \$317 million in cash, \$1 million of assumed working capital and \$14 million of properties exchanged. Three of the transactions account for the majority of the acquisitions and were acquired for a total cost of \$288 million. These three acquisitions included oil and gas properties in North America and the North Sea.

	North America	North Sea	Combined
Net assets acquired			
Property, plant and equipment	93	374	467
Asset retirement obligation	—	(101)	(101)
Future income tax	—	(78)	(78)
	93	195	288

During 2003, Talisman completed a number of individually insignificant oil and gas property and corporate acquisitions for a total cost of \$768 million, comprised of \$661 million in cash, \$70 million of assumed debt and working capital deficiency and \$37 million of properties exchanged. Four of the transactions account for the majority of the acquisitions and were acquired for a total cost of \$626 million. These four acquisitions included oil and gas properties in North America and the North Sea and a Company with midstream assets in North America.

	North America	North Sea	Combined
Net assets acquired			
Property, plant and equipment	548	176	724
Asset retirement obligations	(7)	(64)	(71)
Goodwill	—	31	31
Future income tax	(27)	(31)	(58)
	514	112	626

Goodwill Continuity

	2004	2003
Opening balance at January 1	473	469
Acquired during year	—	31
Foreign currency translation effect	(7)	(27)
Closing balance at December 31	466	473

4. INVENTORIES

December 31	2004	2003
Materials and supplies	75	95
Product	3	5
	78	100

5. PROPERTY, PLANT AND EQUIPMENT

December 31, 2004	Cost	Accumulated DD&A	Net book value
Oil and gas properties	11,532	5,744	5,788
Gas plants, pipelines and production equipment	7,068	2,079	4,989
Corporate assets	259	189	70
	18,859	8,012	10,847
December 31, 2003 ¹			
Oil and gas properties	11,229	5,162	6,067
Gas plants, pipelines and production equipment	5,860	1,813	4,047
Corporate assets	242	163	79
	17,331	7,138	10,193

1 Restated to reflect the retroactive adoption of the new accounting policy on asset retirement obligation as at January 1, 2004. See note 6 for details.

In the year ended December 31, 2004, interest costs of \$13 million (2003 – \$24 million, 2002 – \$25 million) were capitalized.

Included in property, plant and equipment are the following costs that were not subject to depreciation, depletion or amortization ("DD&A") as at December 31:

Non-depleted capital at December 31	2004	2003
Acquired probable reserve costs ¹		
North America – associated with producing fields	38	140
North Sea – not associated with producing fields	54	14
Other – not associated with producing fields	41	–
Exploration costs ²	284	283
Development Projects ³		
North America	16	–
Southeast Asia	345	265
North Sea	117	17
Algeria	–	39
Trinidad	255	108
	1,150	866

1 Acquisition costs of unproved reserves are not depleted or amortized while under active evaluation for commercial reserves.

2 Exploration costs consist of drilling in progress and wells awaiting determination of proved reserves, approval of development plans or commencement of production.

3 Development projects are not depleted pending initial production.

Summary of exploration costs	Total	Less than 1 year	1 to 3 years	Greater than 3 years
North America	202	202	–	–
North Sea	19	4	13	2
Southeast Asia	8	4	4	–
Algeria	23	–	–	23
Trinidad	20	11	9	–
Other	12	12	–	–
	284	233	26	25

In the North Sea and Southeast Asia, costs related to three wells drilled before 2004 continue to be capitalized, as management's ongoing assessment includes further development activity planned for 2005.

In Trinidad, costs associated with one well drilled in 2003 continue to be capitalized as management continues to further assess development activity planned for 2005.

In Algeria the Company continues to pursue a development plan for the MLSE field. Discussions with the host government are ongoing in an attempt to agree on the most appropriate way to develop the unproven reserves. Until an approved development plan is in place, the reserves cannot be classified as proved. The costs associated with these six wells continue to be capitalized as the Company actively pursues a development plan.

The carrying values of property, plant and equipment, including acquired probable reserve costs, are subject to uncertainty associated with the quantity of oil and gas reserves, future production rates, commodity prices and other factors. Future events could result in material changes to the carrying values recognized in the Consolidated Financial Statements.

6. ASSET RETIREMENT OBLIGATIONS

Effective January 1, 2004 the Company retroactively adopted the CICA's new standard for accounting for ARO. Previously these obligations of oil and gas properties, including offshore production platforms, were provided for using the unit of production method while those obligations of gas plants and facilities were provided for using the straight-line method. The adjustment required to the December 31, 2003 consolidated balance sheet to implement this change in accounting was as follows:

	As previously reported	Adjustments	As restated
Property, plant and equipment	9,778	415	10,193
Provision for future site restoration/ARO	840	317	1,157
Future income taxes	2,088	39	2,127
Retained earnings	1,844	59	1,903

The adjustment to the consolidated income statement for the year ended December 31, 2003 is as follows:

	As previously reported	Adjustments	As restated
Depletion, depreciation and amortization	1,443	(8)	1,435
Future income tax (recovery)	(51)	3	(48)
Net income	1,007	5	1,012
Per common share ¹ (Canadian dollars)			
Net income	2.55	0.01	2.56
Diluted net income	2.52	0.01	2.53

The adjustment to the consolidated income statement for the year ended December 31, 2002 is as follows:

	As previously reported	Adjustments	As restated
Depletion, depreciation and amortization	1,495	(33)	1,462
Future income tax (recovery)	162	13	175
Net income	524	20	544
Per common share ¹ (Canadian dollars)			
Net income	1.24	0.05	1.29
Diluted net income	1.22	0.05	1.27

¹ Per share amounts have been retroactively restated to reflect the impact of the Company's three-for-one stock split. See note 9 for details.

The change in accounting for ARO did not significantly affect earnings for the year ended December 31, 2004. Total accretion for the year ended December 31, 2004 of \$70 million (2003 – \$58 million, 2002 – \$52 million) has been included in depreciation, depletion and amortization. At December 31, 2004 the estimated total undiscounted asset retirement obligation was \$2.6 billion (2003 – \$2.0 billion). These obligations will be settled based on the useful lives of the underlying assets, the majority of which are expected to be settled within the next 25 years. The asset retirement obligations have been discounted using credit-adjusted risk free rates of 5.5 percent in the North Sea and 6.5 percent in North America. No amount of market risk premium has been included in the estimate of the Company's ARO liability as management does not believe there to be sufficient evidence in the oil and gas industry to estimate any such market premium.

During the year ended December 31, 2004, the Company's asset retirement obligations changed as follows:

ARO liability at January 1, 2004 ¹	1,177
Liabilities incurred during period	126
Liabilities settled during period	(29)
Accretion expense	70
Revisions in estimated cash flows	(44)
Foreign currency translation	(5)
ARO liability at December 31, 2004 ¹	1,295

¹ Included in January 1, 2004 and December 31, 2004 liabilities are \$20 million and \$23 million respectively of short-term reclamation costs recorded in accounts payable on the balance sheet for a net ARO liability of \$1,157 and \$1,272 respectively.

7. LONG-TERM DEBT

December 31	2004	2003
Bank Credit Facilities ¹		
2.86% Bank Credit Facilities	328	—
Debentures and Notes (Unsecured) ²		
6.71% notes (US\$25 million), Series A, due 2004	—	32
9.80% debentures, Series B, due 2004	—	75
6.96% notes (US\$200 million), due 2005 ³	241	258
6.89% notes (US\$50 million), Series B, due 2006 ⁴	60	65
5.80% medium term notes, due 2007	385	385
7.125% debentures (US\$175 million), due 2007	211	226
6.68% notes (US\$100 million), due 2008	120	129
8.06% medium term notes, due 2009	174	174
6.625% notes (£250 million), due 2017 ⁵	577	471
7.25% debentures (US\$300 million), due 2027	361	388
	2,457	2,203

¹ Rates reflect the weighted-average interest rate of instruments outstanding at December 31. Rates are floating rate-based and vary with changes in short-term market interest rates.

² Interest on debentures and notes is payable semi-annually except for interest on the 6.625% notes (£250 million) which is payable annually and the 6.68% notes (US\$100 million) which is paid quarterly.

³ The amount outstanding at December 31, 2004 has been classified as long-term debt since the Company has the ability and intention to replace this debt with long-term borrowings under the revolving bank credit facilities.

⁴ Repayable in five equal annual installments commencing 2006.

⁵ Prior to January 1, 2004 the £250 million Eurobond was effectively swapped into US\$364 million indebtedness. Effective January 2004 this debt is no longer swapped into US dollars and is now revalued based on the Canadian dollar to pound sterling exchange rate. See note 11 to the consolidated financial statements.

Bank Credit Facilities

At December 31, 2004, Talisman had unsecured credit facilities totaling \$1,335 million, consisting of facilities of \$480 million ("Facility No. 1"), \$605 million ("Facility No. 2"), \$150 million ("Facility No. 3"), \$50 million ("Facility No. 4") and \$50 million ("Facility No. 5"). The maturity date of Facility No. 1 is March 23, 2007 although this date may be extended from time to time upon agreement between the Company and the respective lenders. Prior to the maturity date, the Company may borrow, repay and reborrow at its discretion. The term dates of Facilities No. 2, 3, 4 and 5 are March 14, 2005, August 22, 2005, November 22, 2005 and July 10, 2005, respectively. Until each term date, the Company may borrow, repay and reborrow at its discretion. Annually, upon agreement between the Company and the respective lenders, each term date may be extended for an additional 364 days. Facility No. 2 expires two years after its term date and Facilities No. 3, 4 and 5 expire one year after their term dates and, if the terms are not extended, all Facilities must be repaid on their maturity date.

Borrowings under Facilities No. 1 and 2 are available in the form of prime loans, Canadian or US dollar bankers' acceptances, US dollar base rate loans or LIBOR-based loans. In addition, drawings to a total of \$542 million are available in the form of letters of credit. Borrowings under Facility No. 3 are available in the form of prime loans, Canadian or US dollar bankers' acceptances, US dollar base rate loans, LIBOR-based loans and letters of credit. Borrowings under Facility No. 4 are available in the form of prime loans, Canadian or US dollar guaranteed notes, US dollar base rate loans and LIBOR-based loans. Borrowings under Facility No. 5 are available in the form of prime loans, Canadian or US dollar bankers' acceptances, US dollar base rate loans and LIBOR-based loans.

Repayment Schedule

The Company's contractual minimum repayments of long-term debt are as follows:

Year	
2005 ¹	241
2006	24
2007	924
2008	132
2009	186
Subsequent to 2009	950
Total	2,457

¹ The portion of long-term debt payable in 2005 has been classified as long-term debt since the Company has the ability and intention to replace this debt with long-term borrowings under the revolving bank credit facilities.

8. PREFERRED SECURITIES

During 1999, Talisman issued 12 million preferred securities ("securities") as unsecured junior subordinated debentures, at US\$25 per security, of which six million 9% securities were due February 15, 2048 and six million 8.9% securities were due June 15, 2048. During 2004, the Company redeemed all outstanding preferred securities realizing a \$23 million gain (net of tax), being the difference between the carrying value and the redemption cost. The redemptions were funded from current cash flow and bank borrowings and the gains were credited directly to retained earnings.

9. SHARE CAPITAL

In 2004, the Company implemented a three-for-one share split of its issued and outstanding common shares. All references to net income per share, diluted net income per share, weighted average number of common shares outstanding, common shares issued and outstanding and options granted, exercised and forfeited/expired have been retroactively restated to reflect the impact of the Company's three-for-one split.

Talisman's authorized share capital consists of an unlimited number of common shares without nominal or par value and first and second preferred shares. No preferred shares have been issued.

Continuity of common shares	2004		2003 (restated)		2002 (restated)	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance, beginning of year	383,996,184	2,725	393,118,305	2,785	401,199,546	2,831
Issued on exercise of options	182,900	5	884,679	11	3,462,201	36
Purchased during year	(8,987,400)	(64)	(10,006,800)	(71)	(11,542,500)	(82)
Cancelled pursuant to terms of plans of arrangements	(6,394)	—	—	—	(942)	—
Balance, end of year	375,185,290	2,666	383,996,184	2,725	393,118,305	2,785

During the year ended December 31, 2004, Talisman repurchased 8,987,400 common shares of the Company pursuant to a normal course issuer bid for a total of \$286 million (2003 – 10,006,800 for \$194 million; 2002 – 11,542,500 for \$220 million). The cost to repurchase common shares in excess of their average book value has been charged to retained earnings, contributed surplus and cumulative foreign currency translation.

In 2004, Talisman cancelled 6,394 common shares of the Company (2003 – nil shares; 2002 – 942 shares) pursuant to the terms of the offering agreements of certain past corporate acquisitions.

a) Stock Option Plans

Effective in 2003 the Company began to use the intrinsic-value method to recognize compensation expense associated with its stock appreciation rights (Stock option plans and Cash unit plan). Obligations are accrued on a graded vesting basis and represent the difference between the market value of the Company's common shares and the exercise price of the options. This obligation is revalued each reporting period based on the changes in the graded vested amount of stock appreciation rights outstanding and changes in the market value of the Company's common shares.

Talisman has stock option plans that grant options to employees and directors. All options issued by the Company permit the holder to purchase one common share of the Company at the stated exercise price or, effective July 1, 2003, to receive a cash payment equal to the appreciated value of the stock option. All options granted under the plans are generally exercisable after three years and expire 10 years after the grant date. Option exercise prices approximate the market price for the common shares on the date the options were granted.

Continuity of stock options	2004		2003		2002	
	Number of Options	Average Exercise Price	Number of Options	Average Exercise Price	Number of Options	Average Exercise Price
Outstanding at January 1	23,599,596	17.55	22,152,162	15.51	22,492,833	13.83
Granted	3,695,580	25.68	7,184,097	19.83	3,302,130	21.58
Exercised for common shares	182,900	12.74	884,679	11.27	3,462,201	10.18
Exercised for cash payment	6,023,241	15.49	4,260,711	11.84	—	—
Forfeited	300,210	21.13	589,620	19.63	177,450	19.18
Expired	450	13.65	1,653	10.18	3,150	19.29
Outstanding at December 31	20,788,375	19.58	23,599,596	17.55	22,152,162	15.51
Exercisable at December 31	7,731,478	15.73	7,742,865	12.46	9,427,887	11.45
Options available for future grants pursuant to the Company's Stock Option Plans	16,663,875		14,035,554		9,467,667	

The range of exercise prices of the Company's outstanding stock options is as follows:

December 31, 2004	Outstanding Options			Exercisable Options	
	Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Years to Expiry	Number of Options
8.08-14.99	3,666,915	11.64	4	3,666,915	11.64
15.00-19.99	10,176,205	19.63	7	3,982,813	19.40
20.00-24.99	3,508,080	21.64	7	81,750	20.71
25.00-32.59	3,437,175	25.79	9	—	—
8.08-32.59	20,788,375	19.58	7	7,731,478	15.73

At December 31, 2004, 16,663,875 common shares were reserved for future issuance related to the stock option plans. The mark-to-market liability for the stock option plans as at December 31, 2004 was \$214 million (2003 – \$135) and is included in accrued liabilities on the consolidated balance sheet.

b) Cash Unit Plan

In addition to the Company's stock option plans, Talisman's subsidiaries issue stock appreciation rights under the cash unit plans. Cash units are similar to stock options except that the holder does not have a right to purchase the underlying share of the Company. As at December 31, 2004 there were 1,526,640 cash units outstanding with an average exercise price of \$21.34/cash unit (2003 – 1,153,515, \$19.83/cash unit). During the year 399,075 (2003 – 1,153,515) units were issued and 25,950 (2003 – nil) were cancelled. At December 31, 2004 the mark-to-market liability on the cash units was \$9 million (2003 – \$1 million) and is included in accrued liabilities on the balance sheet.

c) Deferred Share Units

Talisman also issues deferred share units to directors in lieu of cash compensation. Each deferred share unit (DSU) represents the right to receive a cash payment on retirement equal to the market value of the Company's share at the time of surrender. Dividends are credited as additional DSU's when paid. As at December 31, 2004 there were 57,275 units outstanding. The mark-to-market liability of \$2 million (2003 – \$1 million) is included in accrued liabilities on the balance sheet.

10. CUMULATIVE FOREIGN CURRENCY TRANSLATION

In accordance with the Company's foreign exchange translation accounting policy, as disclosed in note 1(i), foreign exchange gains or losses on translation of self-sustaining operations and the translation of the Company's financial results into Canadian dollars for reporting purposes are included in shareholders' equity in the cumulative foreign currency translation account.

The following components give rise to the exchange gains or (losses) included in the cumulative foreign currency translation account as at December 31:

	2004	2003
Property, plant and equipment	(586)	(443)
Future tax liabilities (including PRT)	44	37
Asset retirement obligation	1	(4)
Long-term debt	446	341
Working capital	(23)	(20)
Goodwill	(32)	(25)
	(150)	(114)

11. FINANCIAL INSTRUMENTS

Financial contracts

The Company entered into crude oil price derivative contracts to reduce the volatility of the Company's cash flows associated with anticipated crude oil sales. The Company's outstanding commodity price derivative contracts have been designated as hedges of the Company's anticipated future commodity sales and, as such, gains and losses on these contracts are realized in income over the terms of the contracts. The Company had the following commodity price derivative contracts outstanding at December 31, 2004.

Crude oil price derivative contracts

	2005
Fixed price swaps (WTI oil index)	
Volumes (bbls/d)	6,000
Price (US\$/bbl)	26.97

Interest rates and long-term debt

As a result of the new CICA accounting guideline of Hedging Relationships (AcG 13), effective January 1, 2004, the Company's US dollar cross currency swap contracts and interest rate swap contracts were no longer designated as hedges of the Eurobond. These contracts were subsequently terminated in 2004 for proceeds of \$138 million. As a result of these contracts no longer hedging the Eurobond debt, on January 1, 2004, the Company recorded a deferred gain of \$17 million, which will be amortized over the period to 2009, the original term of the contracts. The debt is now revalued each period at the period end exchange rate. The translation of this debt as at December 31, 2004 resulted in an increase to long-term debt of \$106 million.

Interest rate derivative contracts

In December 1994 in anticipation of issuing the US\$175 million 7.125% debentures, Talisman entered into interest rate swap contracts to hedge against possible adverse interest rate fluctuations. These contracts require Talisman to pay interest at 8.295% in exchange for receiving payments at the three-month LIBOR rate on a notional principal amount of US\$100 million. These contracts expire on May 16, 2005.

Carrying Amounts and Estimated Fair Values of Financial Instruments

Asset (liability) at December 31	2004			2003		
	Carrying Value	Fair Value	Unrecognized	Carrying Value	Fair Value	Unrecognized
Debentures and notes	(2,457)	(2,659)	(202)	(2,203)	(2,535)	(332)
Cross currency and interest rate swaps	(3)	(3)	—	—	110	110
Natural gas derivatives	—	—	—	—	(21)	(21)
Crude oil derivatives	—	(41)	(41)	—	(81)	(81)

Borrowings under bank credit facilities are for short terms and are market rate based, thus carrying values approximate fair value. The fair value of debentures and notes is based on market quotations, which reflect the discounted present value of the principal and interest payments using the effective yield at December 31 for instruments having the same term and risk characteristics. Fair values for derivative instruments are determined based on the estimated cash payment or receipt necessary to settle the contract at December 31. Cash payments or receipts are based on discounted cash flow analysis using current market rates and prices.

The fair values of other financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and income and other taxes payable, approximate their carrying values.

Interest Rate Risk

Drawings under the Company's bank credit facilities are at floating interest rates and expose the Company to interest rate risk. The company is also exposed to interest rate risk on maturity and refinancing of its fixed rate debt.

Credit Risk

A significant portion of the Company's accounts receivable is due from entities in the oil and gas industry. Concentration of credit risk is mitigated by having a broad domestic and international customer base, which includes a significant number of companies engaged in joint operations with Talisman. The Company routinely assesses the financial strength of its partners and customers, including parties involved in marketing or other commodity arrangements. At December 31, 2004 the Company's largest credit exposure to a single party is approximately \$110 million.

The Company is exposed to credit risk associated with possible non-performance by derivative instrument counterparties. The Company actively limits the total exposure to individual counterparties.

12. CONTINGENCIES AND COMMITMENTS

From time to time, Talisman is the subject of litigation arising out of the Company's operations. Damages claimed under such litigation, including the litigation discussed below, may be material or may be indeterminate and the outcome of such litigation may materially impact the Company's financial condition or results of operations. While Talisman assesses the merits of each lawsuit and defends itself accordingly, the Company may be required to incur significant expenses or devote significant resources to defending itself against such litigation. These claims are not currently expected to have a material impact on the Company's financial position.

Talisman continues to be subject to a lawsuit brought by the Presbyterian Church of Sudan and others under the Alien Tort Claims Act in the United States District Court for the Southern District of New York. The lawsuit, which is seeking class action status, alleges that the Company conspired with, or aided and abetted, the Government of Sudan to commit violations of international law in connection with the Company's now disposed of interest in oil operations in Sudan. In December 2004, Talisman filed a motion for judgment on the pleadings, seeking dismissal of the lawsuit on the grounds that the court lacks subject matter jurisdiction to hear the lawsuit, and filed its opposition papers to the certification of the lawsuit as a class action. No decision is expected on either of these motions prior to the end of March 2005. Talisman believes the lawsuit to be entirely without merit and is continuing to vigorously defend itself and does not expect the lawsuit to have a material adverse effect.

Talisman's estimated total undiscounted future ARO at December 31, 2004 was \$2.6 billion (2003 – \$2.0 billion), approximately 67% of which is denominated in UK pounds sterling. At December 31, 2004, Talisman had accrued \$1,295 million (2003 – \$1,177 million) of this liability. The Company has provided letters of credit in 2005 in the amount of \$571 million of which a majority were provided as security for the costs of future dismantlement, site restoration and abandonment obligations in the North Sea (\$462 million). The remaining outstanding letters of credit primarily relate to a retirement compensation arrangement and guarantees of minimum work commitments. In addition to the letters of credit the Company has guaranteed minimum work obligations with the Minister of Energy & Energy Industries in Trinidad in the amount of \$34 million in lieu of letters of credit.

Talisman has firm commitments for gathering, processing and transportation services that require the Company to pay tariffs to third parties for processing or shipment of certain minimum quantities of crude oil and liquids and natural gas. The Company has sufficient production to meet these commitments.

Talisman leases certain of its ocean-going vessels and corporate offices, all of which are accounted for as operating leases. The term of the Ross Floating Production, Storage and Offloading vessel ("FPSO") lease depends on the expected life of the Ross and Blake fields. A lease for an FSO contracted in Malaysia commences in 2005 for a term of 11 years with a two-year cancellation clause. In addition, Talisman has ongoing operating commitments associated with the vessels.

Estimated future minimum commitments¹

	2005	2006	2007	2008	2009	Subsequent to 2009	Total
Office leases	23	21	19	17	17	98	195
Vessel leases	85	74	—	—	—	—	159
Transportation and processing commitments ²	150	111	95	82	70	504	1,012
Minimum work commitments	269	53	5	—	—	—	327
Abandonment obligations	23	46	50	18	61	2,441	2,639
Other service contracts	86	17	4	4	4	28	143
Total	636	322	173	121	152	3,071	4,475

1 Future minimum payments denominated in foreign currencies have been translated into Canadian dollars based on the December 31, 2004 exchange rate.

2 Certain of the Company's transportation commitments are tied to firm gas sales contracts.

During 2004, the Company signed a long-term contract to sell 810 bcf of Corridor natural gas to West Java, over a 17 year period with gas sales commencing in 2007, at a price of US\$1.91/mcf, with no associated transportation costs. The Company anticipates having sufficient production to meet all future delivery commitments.

The Company has also entered into sales contracts for a portion of its future North American natural gas production. The following are the average volumes under contract and the weighted-average contract price in each of the years shown.

Natural Gas (North America)

Fixed price sales	2005	2006	2007
Volumes (mcf/d)	14,650	14,650	14,650
Weighted average price (\$/mcf)	3.46	4.15	4.27

13. OTHER REVENUE

Years ended December 31	2004	2003	2002
Pipeline and custom treating tariffs	73	63	69
Investment income	9	9	8
Marketing income	3	4	3
	85	76	80

14. OTHER EXPENSES

Years ended December 31	2004	2003	2002
Net loss (gain) on asset disposals	30	(14)	10
Foreign exchange losses	30	7	28
Property impairments	31	30	74
Gain on derivatives settlement	(15)	—	—
Other expense (income)	13	(7)	1
	89	16	113

15. TAXES

Income Taxes

The current and future income taxes for each of the three years ended December 31 are as follows:

	2004	2003 (restated ¹)	2002 (restated ¹)
Current income taxes (recovery)			
North America ²	43	21	(20)
North Sea	266	99	131
Southeast Asia	134	84	76
Algeria	33	—	—
Sudan	—	17	68
Other	2	8	3
	478	229	258
Future income taxes (recovery)			
North America	(58)	(47)	70
North Sea	(28)	23	126
Southeast Asia	9	(13)	(3)
Algeria	8	4	—
Sudan	—	9	16
Other	(36)	(24)	(34)
	(105)	(48)	175
Income taxes	373	181	433

1 Prior years have been retroactively restated to reflect the retroactive adoption of new accounting policy for Asset Retirement Obligations. See note 6 for details.

2 Current North America income taxes include the Canadian federal tax on large corporations, net of Alberta royalty tax credits.

The components of the net future tax liability at December 31, are as follows:

	2004	2003 (restated ¹)
Future tax liabilities		
Property, plant and equipment	2,531	2,415
Pension assets	21	22
Other	146	216
	2,698	2,653
Future tax assets		
Provision for future site restoration	517	457
Other	81	69
	598	526
Net future tax liability	2,100	2,127

1 Prior years have been retroactively restated to reflect the retroactive adoption of new accounting policy for Asset Retirement Obligations. See note 6 for details.

Future distribution taxes associated with operations in the UK have not been recorded because, based on current plans, repatriation of funds in excess of foreign reinvestment will not result in material amounts of tax expense. Unremitted earnings in other foreign jurisdictions are not material.

Income taxes vary from the amount that would be computed by applying the Canadian statutory income tax rate of 34.13% for the year ended December 31, 2004 (2003 – 35.36%; 2002 – 42.08%) as follows:

Years ended December 31	2004	2003	2002
Income taxes calculated at the Canadian statutory rate	398	454	455
Increase (decrease) in income taxes resulting from:		(restated ¹)	(restated ¹)
Non-deductible royalties, mineral taxes and expenses	104	158	138
Resource allowances	(84)	(122)	(128)
Change in statutory tax rates	(50)	(160)	116
Non-taxable expense (income)	17	(80)	—
Deductible PRT expense	(43)	(32)	(51)
Higher (lower) foreign tax rates (net)	26	(2)	(80)
Provincial rebates and credits	1	(12)	(10)
Federal tax on large corporations	9	10	9
Other	(5)	(33)	(16)
Income taxes	373	181	433

1 Prior years have been retroactively restated to reflect the retroactive adoption of new accounting policy for Asset Retirement Obligations. See note 6 for details.

Petroleum Revenue Taxes

Petroleum Revenue Tax (PRT) expense primarily relates to the UK and is comprised of current tax expense of \$124 million (2003 – \$72 million; 2002 – \$91 million) and deferred tax expense of \$5 million (2003 – \$20 million; 2002 – \$33 million). The measurement of PRT expense and the related provision in the Consolidated Financial Statements is subject to uncertainty associated with future recovery of oil and gas reserves, commodity prices and the timing of future events, which could result in material changes to deferred amounts.

16. CONSOLIDATED STATEMENTS OF CASH FLOWS

Selected cash flow information:

Years ended December 31	2004	2003	2002
Net income	663	1,012	544
Items not involving current cash flow		(restated ¹)	(restated ¹)
Depreciation, depletion and amortization	1,650	1,435	1,462
Property impairments	31	30	74
Dry hole	311	251	174
Net loss (gain) on asset disposals	30	(14)	10
Gain on sale of Sudan	—	(296)	—
Stock-based compensation	89	138	—
Future taxes and deferred PRT	(100)	(28)	208
Other	19	(12)	(12)
	2,030	1,504	1,916
Exploration	238	213	185
Cash flow	2,931	2,729	2,645
Cash interest paid (net of capitalized interest)	150	139	156
Cash income taxes paid	289	168	274

1 Prior years have been retroactively restated to reflect the retroactive adoption of new accounting policy for Asset Retirement Obligations. See note 6 for details.

Changes in operating non-cash working capital consisted of the following:

Years ended December 31	2004	2003	2002
Accounts receivable	(72)	(32)	(155)
Inventories	19	32	(42)
Prepaid expenses	—	4	5
Reclamation expenditures	(29)	(24)	(24)
Accounts payable and accrued liabilities	103	(63)	(16)
Income and other taxes payable	182	(45)	45
Net source (use) of cash	203	(128)	(187)

17. NET INCOME AND DILUTED NET INCOME PER SHARE

The following table summarizes the calculation of net income and diluted net income per share.

	2004	2003	2002
Net income	663	(restated ^{1,2}) 1,012	(restated ^{1,2}) 544
Less preferred security charges, net of tax	9	22	24
Add gain on redemption of preferred securities	23	—	—
Net income available to common shareholders	677	990	520
Weighted average number of common shares outstanding (millions) – Basic	383	386	402
Dilution effect of stock options (millions)	7	5	7
Weighted average number of commons shares outstanding (millions) – Diluted	390	391	409
Net income per share (\$/share) ²			
Basic	1.77	2.56	1.29
Diluted	1.74	2.53	1.27

1 Prior years have been retroactively restated to reflect the adoption of the new accounting policy on Asset Retirement Obligations. See note 6 for details.

2 Per share amounts have been retroactively restated to reflect the Company's three-for-one share split. See note 9 for details.

Outstanding stock options are the only instruments that are currently dilutive to earnings per share. For 2004, 29,100 stock options that were antidilutive have been excluded from the computation of diluted earnings per share (2003 – 3,504,630; 2002 – 3,240,105).

18. EMPLOYEE BENEFITS

The Company sponsors both defined benefit and defined contribution pension arrangements covering substantially all employees. Defined benefit pension plans are based on years of service and final average salary. The defined pension benefits in the UK and Norway, which account for 28% of the accrued benefit obligation as at December 31, 2004, will increase at the rate of inflation. Although the Company has no commitment to provide for increases related to inflation on the remainder of its defined benefit pension plans, the benefits have increased annually by one half of the rate of inflation.

The Company uses actuarial reports prepared by independent actuaries for funding and accounting purposes. The Company uses a December 31 measurement date for the majority of its defined benefit pension plans. The most recent actuarial valuation of the benefit plans for funding purposes was as of December 31, 2003 with the next valuation as of December 31, 2004, planned for the second quarter of 2005. The following significant actuarial assumptions were employed to determine the periodic pension expense and the accrued benefit obligations:

	2004	2003	2002
Accrued benefit obligation			
Discount rate (%)	5.6	6.1	6.4
Rate of compensation increase (%)	4.3	4.5	4.5
Benefit expense			
Discount rate (%)	5.9	6.4	6.5
Expected long-term rate of return on plan assets (%)	7.0	7.5	7.5
Assumed health care cost trend rates			
Initial health care cost trend rate (%)	10.0	10.0	10.0
Health care cost trend rate declines to (%)	5.0	5.0	5.0
Year that the cost trend rate reaches final rate	2018	2018	2018

The Company's net benefit plan expense is as follows:

	2004	2003	2002
Current service cost – defined benefit	10	7	5
Current service cost – defined contribution	8	7	6
Interest cost	10	8	7
Plan amendments	3	–	–
Actual return on plan assets	(17)	(17)	9
Actuarial loss on accrued benefit obligation	6	15	15
Costs arising in the period	20	20	42
Differences between costs arising in the period and net benefit plan expense			
Return on plan assets	6	8	(20)
Plan amendments	(3)	–	–
Actuarial loss	7	(13)	(15)
Amortization of net transitional asset	(2)	(1)	(1)
Net benefit plan expense	28	14	6

Information about the Company's defined benefit pension plans is as follows:

	2004		2003	
	Pension plans grouped by funded status	Surplus	Deficit ¹	Pension plans grouped by funded status
	Surplus	Deficit ¹	Surplus	Deficit ¹
Accrued benefit obligation				
Accrued benefit obligation, beginning of year ²	93	47	54	63
Current service cost	6	4	1	6
Interest cost	6	4	4	4
Actuarial losses	(2)	8	7	8
Plan participants' contributions	1	–	–	1
Benefits paid	(4)	(1)	(4)	(4)
Plan amendments	–	3	–	–
Other	–	10	–	–
Accrued benefit obligation, end of year ²	100	75	62	78
Plan assets				
Fair value of plan assets, beginning of year ²	136	10	114	21
Actual gain on plan assets	16	2	(4)	3
Employer contributions	17	4	–	8
Plan participants' contributions	1	–	–	1
Surplus applied to defined contribution plan	(8)	–	(7)	–
Benefits paid	(4)	(1)	(4)	(4)
Expenses	(1)	–	–	–
Other	–	9	–	–
Fair value of plan assets, end of year ²	157	24	117	29
Funded status – surplus (deficit)				
Unamortized net actuarial loss	12	17	19	26
Unamortized prior service cost	–	5	–	–
Unamortized net transitional (asset) obligation	(8)	4	(11)	3
Net accrued benefit asset (liability)	61	(25)	63	(20)

¹ The net accrued benefit liability for pension plans with a deficit funding status is included in deferred credits on the consolidated balance sheet.

² During 2004 the UK pension plan changed from a deficit to a surplus status. As result, the 2004 opening balances have been adjusted to give effect to this reclassification as follows: accrued benefit obligation increased \$31 million and fair value of plan assets increased \$19 million. At December 31, 2003 the plan was in a deficit status and accordingly the 2003 balances have not been reclassified.

The net benefit plan expense of \$28 million for the year ended December 31, 2004 (2003 – \$14 million; 2002 – \$6 million) is determined by using actuarial assumptions including expected return on plan assets and includes the amortization of net actuarial losses and net transitional assets and obligations as described in note 1(j).

The composition of the plan assets as a percentage of fair value is as follows:

	2004	2003	2002
Equity securities (%)	76	70	69
Fixed income (%)	23	30	31
Cash (%)	1	—	—
	100	100	100

The approximate target allocation percentage for the Canadian employee and executive plans, that account for 66% of total plan assets, is 70% equities, 30% bonds and expected return on assets is 8.1% equities and 5.0% bonds. The Company's plan assets do not include any common shares of Talisman.

At December 31, 2004, the actuarial net present value of the accrued benefit obligation for other post-retirement benefit plans was \$12 million (2003 – \$8 million; 2002 – \$7 million). The other post-retirement benefit plans provide medical, dental and life benefits for active and retired employees. A one-percentage point change in the assumed health care cost trend rates would be immaterial.

19. SALE OF SUDAN OPERATIONS

On March 12, 2003, the Company completed the sale of its 25% indirectly held interest in the Greater Nile Oil Project in Sudan. Total gross proceeds were \$1.13 billion (US\$771 million), including interest and cash received by Talisman during the interim period between September 1, 2002 and closing on March 12, 2003. The gain on sale is as follows:

Gross proceeds on sale of Sudan operations (US\$771 million)	1,135
Less interim adjustments	(123)
	1,012
Property, plant and equipment	687
Working capital and other assets	72
Future income tax liability	(59)
Net carrying value at March 12, 2003	700
Closing costs	16
Gain on disposal	296

20. Segmented Information

	North America ²			North Sea ³		
	2004	2003	2002	2004	2003	2002
Revenue						
Gross sales						
Oil and liquids	838	744	715	2,154	1,639	1,803
Natural gas	2,213	2,073	1,257	231	190	185
Synthetic oil	57	42	42	—	—	—
Sulphur	7	6	(4)	—	—	—
Total gross sales	3,115	2,865	2,010	2,385	1,829	1,988
Hedging	151	85	(82)	329	83	5
Royalties	599	587	373	37	8	96
Net sales	2,365	2,193	1,719	2,019	1,738	1,887
Other	62	54	38	23	23	40
Total revenue	2,427	2,247	1,757	2,042	1,761	1,927
Segmented expenses						
Operating						
Oil and liquids	135	131	121	592	475	459
Natural gas	257	237	212	23	14	19
Synthetic oil	23	22	19	—	—	—
Pipeline	6	5	5	47	39	44
Total operating expenses	421	395	357	662	528	522
Transportation	75	78	78	66	63	78
DD&A	785	688	606	661	616	676
Dry hole	128	135	128	109	69	9
Exploration	123	87	66	28	21	20
Other	18	(28)	77	30	26	55
Total segmented expenses	1,550	1,355	1,312	1,556	1,323	1,360
Segmented income (loss) before taxes	877	892	445	486	438	567
Non-segmented expenses						
General and administrative						
Interest on long-term debt						
Gain on sale of Sudan operation						
Stock based compensation						
Currency translation						
Total non-segmented expenses						
Income before taxes						
Capital expenditures						
Exploration	590	453	321	150	99	134
Development	821	629	480	357	397	297
Midstream	41	27	21	—	—	—
Exploration and development	1,452	1,109	822	507	496	431
Property acquisitions ¹						
Midstream acquisitions						
Proceeds on dispositions						
Other non-segmented						
Net capital expenditures						
Property, plant and equipment	6,214	5,767	5,052	3,074	2,995	3,242
Goodwill	291	291	291	75	74	46
Other	419	403	350	347	386	387
Segmented assets	6,924	6,461	5,693	3,496	3,455	3,675
Non-segmented assets						
Total assets						

1 Excluding corporate acquisitions.

2 North America

		2004	2003	2002
Revenues	Canada	2,199	2,095	1,752
	US	228	152	5
		2,427	2,247	1,757
Property, plant and equipment	Canada	5,738	5,356	4,945
	US	476	411	107
		6,214	5,767	5,052

3 North Sea

		2004	2003	2002
Revenues	United Kingdom	1,897	1,699	1,900
	Netherlands	36	26	27
	Norway	109	36	—
		2,042	1,761	1,927
Property, plant and equipment	United Kingdom	2,858	2,777	3,196
	Netherlands	41	40	46
	Norway	175	178	—
		3,074	2,995	3,242

Southeast Asia ⁴			Algeria			Sudan			Other			Total		
4	2003	2002	2004	2003	2002	2004	2003	2002	2004	2003	2002	2004	2003	2002
9	369	328	254	94	—	—	209	830	—	—	—	3,915	3,055	3,676
1	244	195	—	—	—	—	—	—	—	—	—	2,895	2,507	1,637
—	—	—	—	—	—	—	—	—	—	—	—	57	42	42
—	—	—	—	—	—	—	—	—	—	—	—	7	6	(4)
0	613	523	254	94	—	—	209	830	—	—	—	6,874	5,610	5,351
21	—	—	—	5	—	—	—	2	—	—	—	480	194	(75)
1	156	130	97	46	—	—	97	328	—	—	—	1,124	894	927
9	436	393	157	43	—	—	112	500	—	—	—	5,270	4,522	4,499
—	—	1	—	—	—	—	(1)	1	—	—	—	85	76	80
9	436	394	157	43	—	—	111	501	—	—	—	5,355	4,598	4,579
3	64	64	17	12	—	—	18	84	—	—	—	817	700	728
5	22	21	—	—	—	—	—	—	—	—	—	305	273	252
—	—	—	—	—	—	—	—	—	—	—	—	23	22	19
—	—	—	—	—	—	—	—	—	—	—	—	53	44	49
3	86	85	17	12	—	—	18	84	—	—	—	1,198	1,039	1,048
2	36	38	9	4	—	—	—	—	—	—	—	192	181	194
4	95	87	30	17	—	—	19	93	—	—	—	1,650	1,435	1,462
5	9	4	4	1	—	—	—	13	45	37	20	311	251	174
0	17	19	—	—	5	—	5	6	67	83	69	238	213	185
9	9	11	—	—	2	—	—	(5)	20	2	(9)	59	9	131
0	252	244	60	34	7	—	42	191	132	122	80	3,648	3,128	3,194
9	184	150	97	9	(7)	—	69	310	(132)	(122)	(80)	1,707	1,470	1,385
												183	152	138
												158	137	164
												—	(296)	—
												171	185	—
												30	7	(18)
												542	185	284
												1,165	1,285	1,101
4	70	36	—	4	4	—	7	27	158	151	106	952	784	628
1	246	233	8	30	103	—	(5)	71	158	72	15	1,545	1,369	1,199
5	316	269	8	34	107	—	2	98	316	223	121	2,538	2,180	1,848
												330	638	276
												—	130	—
												(88)	(1,112)	(72)
												26	38	26
												2,806	1,874	2,078
0	1,084	1,098	178	202	244	—	—	772	331	145	57	10,847	10,193	10,465
0	108	132	—	—	—	—	—	—	—	—	—	466	473	469
1	217	205	36	27	6	—	—	56	11	18	12	1,034	1,051	1,016
1	1,409	1,435	214	229	250	—	—	828	342	163	69	12,347	11,717	11,950
												61	63	67
												12,408	11,780	12,017

Southeast Asia	2004	2003	2002
revenues	Indonesia	346	340
	Malaysia	363	85
	Vietnam	20	50
		729	339
property, plant and equipment	Indonesia	327	516
	Malaysia	701	569
	Vietnam	22	13
		1,050	1,084

21. INFORMATION REGARDING UNITED STATES GAAP DIFFERENCES

Accounting Principles Generally Accepted in the United States

The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") which, in most respects, conform to accounting principles generally accepted in the United States ("US GAAP"). Significant differences between Canadian and US GAAP are as follows:

Net income in accordance with US GAAP:

Years ended December 31

(millions of Canadian dollars)

	Notes	2004	2003 (restated) (see note 2)	2002 (restated) (see note 2)
Net income – Canadian GAAP		663	1,012	544
Foreign exchange loss	4	—	(62)	(56)
Depreciation, depletion and amortization	1,2,3,6,8	(35)	(22)	(59)
Gain (loss) on derivative instruments	4	85	(17)	(129)
Preferred security charges	6	(15)	(38)	(42)
Deferred income taxes	2	(10)	19	64
Gain on sale of Sudan operations	8	—	(296)	—
Interest on long-term debt	4	6	—	—
Results of discontinued operations, net of tax	8	—	(57)	(237)
		31	(473)	(459)
Income from continuing operations		694	539	85
Results of discontinued operations, net of tax	8	—	330	237
Income before cumulative effect of changes in accounting principles		694	869	322
Cumulative effect of changes in accounting principles, net of tax	9	—	53	—
Net income – US GAAP		694	922	322
Income per common share (Canadian dollars) ¹				
Basic				
Continuing operations		1.81	1.40	0.21
Discontinued operations		—	0.85	0.59
Before cumulative effect of changes in accounting principles		1.81	2.25	0.80
Cumulative effect of changes in accounting principles, net of tax		—	0.14	—
Net income		1.81	2.39	0.80
Diluted				
Continuing operations		1.78	1.38	0.21
Discontinued operations		—	0.84	0.58
Before cumulative effect of changes in accounting principles		1.78	2.22	0.79
Cumulative effect of changes in accounting principles, net of tax		—	0.14	—
Net income		1.78	2.36	0.79

¹ Per share amounts have been retroactively restated to reflect the impact of the Company's three-for-one share split. See note 9 for details.

Comprehensive income in accordance with US GAAP:

Years ended December 31

(millions of Canadian dollars)

	Notes	2004	2003	2002
Net income – US GAAP		694	922	322
Other comprehensive income, net of tax:				
Foreign exchange gain on translation of self-sustaining operations	7	288	650	170
Change in fair value of financial instrument	4	(40)	—	—
Comprehensive income – US GAAP		942	1,572	492

Statement of cash flow items in accordance with US GAAP are as follows:

Years ended December 31 (millions of Canadian dollars)	Notes	2004	2003	2002
Operating				
Cash provided by operating activities	10	2,896	2,379	2,230
Investing				
Cash used in investing activities	10	(2,519)	(1,497)	(1,913)
Financing				
Cash used in financing activities		(416)	(783)	(307)
Effect of translation on foreign currency cash		(21)	(28)	—
Net increase (decrease) in cash		(60)	71	10
Cash beginning of year		98	27	17
Cash end of year		38	98	27

Balance sheet items in accordance with US GAAP are as follows:

December 31 (millions of Canadian dollars)	Notes	2004			2003
		Canadian GAAP	US GAAP	Canadian GAAP (restated) (note 2)	US GAAP
Current assets		970	970	975	975
Property, plant and equipment	1,2,3	10,847	11,158	10,193	10,538
Other non-current assets	4	591	521	612	607
		12,408	12,649	11,780	12,120
Current liabilities		1,643	1,643	1,218	1,218
Long-term debt	4,6	2,457	2,457	2,203	2,696
Future income taxes	2	2,100	2,045	2,127	2,063
Other non-current liabilities	4	1,377	1,366	1,214	1,214
		7,577	7,511	6,762	7,191
Shareholders' equity					
Preferred securities	6	—	—	431	—
Common shares		2,666	2,666	2,725	2,725
Contributed surplus	5	71	88	73	90
Cumulative foreign currency translation	4,6,7	(150)	(1,169)	(114)	(832)
Accumulative other comprehensive income	4,7	—	1,068	—	820
Retained earnings	1-8	2,244	2,485	1,903	2,126
Total liabilities and shareholders' equity		12,408	12,649	11,780	12,120

21.1 Gains on property exchanges – Under both US and Canadian GAAP, property exchanges are recorded at the carrying value of the assets given up unless the exchange transaction includes significant cash consideration, in which case it is recorded at fair value. Under US GAAP, asset exchange transactions are recorded at fair value if cash consideration is greater than 25% (10% under Canadian GAAP) of the fair value of total consideration given or received. The resulting differences in the recorded carrying values of these properties result in differences in depreciation, depletion and amortization expense in subsequent years.

21.2 Income taxes and depreciation, depletion and amortization expense – In 2000, the Company adopted the liability method to account for income taxes. The change to the liability method has eliminated a difference between Canadian and US GAAP; however, in accordance with the recommendations of the Canadian Institute of Chartered Accountants (the "CICA") the effect of the adoption under Canadian GAAP resulted in a charge to retained earnings, whereas, under US GAAP the future tax costs that gave rise to the Canadian GAAP adjustment have already been reflected in property, plant and equipment. As a result of the implementation method, further differences in depreciation, depletion and amortization expense result in subsequent years. Other adjustments to the Canadian GAAP net income required under US GAAP, as disclosed in this note, have been tax effected as necessary.

- 21.3 Impairments** – In 2004 the Company adopted a new standard that eliminated a US GAAP reconciling item in respect to impairments on a go forward basis. Under both US and Canadian GAAP, property, plant and equipment must be assessed for potential impairments. Under US GAAP, and effective in 2004 Canadian GAAP as disclosed in note 1(c), if the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, then an impairment loss (the amount by which the carrying amount of the asset exceeds the fair value of the asset) should be recognized. Fair value is calculated as the present value of estimated expected future cash flows. Prior to 2004, under Canadian GAAP, the impairment loss was the difference between the carrying value of the asset and its net recoverable amount (undiscounted). These impairment charges were not required under Canadian GAAP and the resulting differences in recorded carrying values of impaired assets resulted in further differences in depreciation, depletion and amortization expense in subsequent years.
- 21.4 Forward foreign exchange contracts and other financial instruments** – The Company has designated, for Canadian GAAP purposes, its derivative financial instruments as hedges of anticipated revenue and expenses. In accordance with Canadian GAAP, payments or receipts on these contracts are recognized in income concurrently with the hedged transaction. The fair values of the contracts deemed to be hedges are not reflected in the Consolidated Financial Statements.
- Effective January 1, 2001, for US GAAP purposes, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, as amended, Accounting for Derivative Instruments and Hedging Activities. Effective with the adoption of this standard, every derivative instrument, including certain derivative instruments embedded in other contracts, is recognized on the balance sheet at fair value. The statement requires that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.
- Prior to January 1, 2004 management had not designated any of the currently held derivative instruments as hedges for US GAAP purposes and accordingly these derivatives were recognized on the balance sheet at their fair value with the change in their fair value recognized in earnings. Subsequent to January 1, 2004 management has designated its commodity derivative financial instruments as hedges for US GAAP purposes and accordingly the changes in their fair value are now recognized in other comprehensive income with any ineffective portion recognized in earnings.
- 21.5 Appropriation of contributed surplus** – In 1992, concurrent with a change in control of the Company, \$17 million of contributed surplus was appropriated to retained earnings to eliminate the deficit at June 30, 1992. This restatement of retained earnings is not permitted under US GAAP as the events that precipitated it did not constitute a quasi-reorganization.
- 21.6 Preferred securities** – During 2004 the Company redeemed all of its outstanding preferred securities. Under US GAAP, the Company's preferred securities were treated as debt rather than equity and accordingly were translated at the rates of exchange in effect at the balance sheet date and date of redemption. Under Canadian GAAP, the preferred securities were translated at the historical rate of exchange with the gain on redemption taken directly to retained earnings. In addition, the annual preferred security charges under US GAAP are classified as an expense rather than a direct charge to retained earnings. Under US GAAP, the cost associated with the issuance of the preferred securities was recorded as an asset and was amortized over the term of the preferred securities. Under Canadian GAAP, this cost, net of tax, was charged directly to shareholders' equity.
- 21.7 Foreign exchange gains and losses on translation of self sustaining operations** – Under US GAAP, foreign exchange gains and losses on translation of self-sustaining foreign operations are added, net of tax, to net income in determining comprehensive income. Under Canadian GAAP, such gains and losses are included as a separate component of shareholders' equity referred to as cumulative translation adjustment.
- 21.8 Discontinued operations** – Under US GAAP, effective November 1, 2002, the Sudan assets were classified as Assets Held For Sale with the Sudan operating results, net of tax, classified on the income statement as results of operations held for sale. No depreciation, depletion or amortization has been recorded commencing November 1, 2002 related to these assets. The sale closed March 12, 2003.
- 21.9 Asset Retirement Obligations (future site restoration and abandonment liabilities)** – Effective January 1, 2003, for US GAAP purposes, and January 1, 2004 for Canadian GAAP purposes, the Company adopted SFAS No. 143 and CICA 3110 respectively, which changes the method of accruing for costs associated with the retirement of fixed assets which an entity is legally obligated to incur. The standards require entities to record the fair value of a liability for an asset retirement obligation in the period it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. The adoption of the new standard in Canada in 2004 eliminated a US GAAP reconciling item in respect to accounting for these obligations, however a difference is created in how the transition amounts are disclosed.

US GAAP requires the cumulative impact of a change in an accounting policy to be presented in the current year statement of earnings in the year of adoption, 2003, and prior periods are not to be restated. Canadian GAAP requires the retroactive adoption of CICA 3110.

The following table presents the pro forma effects of the retroactive application of this change in accounting principle. There was no pro forma effect on income from discontinued operations.

	2004	2003	2002
Pro forma net income ¹	694	869	342
Pro forma per common share ²			
Basic	1.81	2.25	0.85
Diluted	1.78	2.22	0.84

1 Pro forma net income for 2003 has been adjusted to remove the \$53 million cumulative effect of a change in accounting principle attributable to SFAS No. 143.

2 Per share amounts have been retroactively restated to reflect the impact of the Company's three-for-one share split. See note 9 for details.

21.10 Cash provided by operating activities presentation

Under US GAAP cash provided by operating activities presentation of non-cash exploration expense is treated as an operating item, whereas under Canadian GAAP it is treated as an investing item.

Newly Issued US Accounting Standards

Share-Based Payments

In 2004, the Financial Accounting Standards Board (FASB) issued a revised Statement No. 123, Share-Based Payment. FAS 123 establishes a standard for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. FAS 123 requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award – usually the vesting period. Revised FAS 123 eliminates the alternative to use intrinsic value method of accounting that was provided in Statement 123 as originally issued. The Company will continue to record expense in its Consolidated Financial Statements as described in note 1(n) but in addition to those expense items there will be a need for an additional expense amount, under the revised FAS 123, relating to the fair value of the options as at the grant date. The impact of this additional expense amount on the Company's financial position, operating results or cash flow is uncertain give the volatility of the assumptions needed to determine the new fair value amount. Revised FAS 123 is effective for public companies as of the beginning of the first interim reporting period after June 15, 2005.

Variable Interest Entities

In 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 Consolidation of Variable Interest Entities (FIN 46), which became effective January 1, 2004. The Canadian Institute of Chartered Accountants (CICA) issued a similar accounting guideline (AcG 15). FIN 46 and AcG 15 provide guidance as to when a company should consolidate another entity into its Consolidated Financial Statements. A variable interest entity (VIE) is a corporation, partnership, trust, or any other legal structure used for business purposes that either (i) does not have equity investors with voting rights or (ii) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 and AcG 15 require a VIE to be consolidated by a company if that company is subject to a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns, or both. If a company has previously consolidated a VIE but is not subject to a majority of the risk of loss of its activities nor entitled to receive a majority of its residual returns, such a VIE is required to be deconsolidated. Management has determined that this guideline does not impact on the Company's financial position, operating results or cash flows.

Summary US Dollar Information

Unless otherwise noted, all amounts in the Consolidated Financial Statements, including Accounting Principles Generally Accepted in the United States above, are reported in millions of Canadian dollars. The following information reflects summary financial information prepared in accordance with US GAAP translated from Canadian dollars to US dollars at the average exchange rate prevailing in the respective year.

US\$ million (except as noted)	2004	2003	2002
Total revenue	4,116	3,281	2,916
Net income	533	658	205
Net income per common share (US\$/share) ¹	1.39	1.71	0.51
Average exchange rate (US\$/C\$)	0.7686	0.7135	0.6368

1 Per share amounts have been retroactively restated to reflect the impact of the Company's three-for-one share split. See note 9 for details.

Supplementary Oil and Gas Information

(unaudited)

The supplemental data on the Company's oil and gas activities was prepared in accordance with the FASB's SFAS No. 69: Disclosures About Oil and Gas Producing Activities. Activities not directly associated with conventional crude oil and natural gas production, including synthetic oil operations, are excluded from all aspects of this supplementary oil and gas information.

Results of Operations from Oil and Gas Producing Activities

Years ended December 31 (millions of Canadian dollars)		North America	North Sea	Southeast Asia	Sudan	Algeria	Trinidad	Other	Total
2004	Net oil and gas revenue derived from proved reserves ¹	2,304	2,038	729	—	156	—	—	5,227
	Less:								
	Production costs	392	662	98	—	17	—	—	1,169
	Transportation	75	66	42	—	9	—	—	192
	Exploration and dry hole expense	251	138	45	—	4	33	78	549
	Depreciation, depletion and amortization	729	689	174	—	30	—	—	1,622
	Tax expense (recovery)	219	288	152	—	36	(11)	(27)	657
	Results of operations	638	195	218	—	60	(22)	(51)	1,038
2003	Net oil and gas revenue derived from proved reserves ¹	2,148	1,762	436	112	43	—	—	4,501
	Less:								
	Production costs	367	528	87	18	12	—	—	1,012
	Transportation	78	63	36	—	4	—	—	181
	Exploration and dry hole expense	222	90	26	5	1	34	86	464
	Depreciation, depletion and amortization	647	635	95	—	17	—	—	1,394
	Tax expense (recovery)	328	237	77	30	3	(12)	(31)	632
	Results of operations	506	209	115	59	6	(22)	(55)	818
2002	Net oil and gas revenue derived from proved reserves ¹	1,712	1,926	393	500	—	—	—	4,531
	Less:								
	Production costs	339	522	85	84	—	—	—	1,030
	Transportation	78	78	38	—	—	—	—	194
	Exploration and dry hole expense	194	29	23	19	5	46	43	359
	Depreciation, depletion and amortization	583	701	87	92	—	—	—	1,463
	Tax expense (recovery)	205	430	75	85	(2)	(22)	(18)	753
	Results of operations	313	166	85	220	(3)	(24)	(25)	732

¹ Net oil and gas revenue derived from proved reserves is net of applicable royalties and reflects hedging activities.

Capitalized Costs Related to Oil and Gas Activities

As at December 31 (millions of Canadian dollars)		North America	North Sea	Southeast Asia	Sudan	Algeria	Trinidad	Other	Total
2004	Proved properties	8,680	7,009	1,487	—	197	229	5	17,607
	Unproved properties	192	54	16	—	23	16	34	335
	Incomplete wells and facilities	49	3	46	—	—	35	12	145
		8,921	7,066	1,549	—	220	280	51	18,087
	Less: accumulated depreciation, depletion and amortization	3,195	4,006	501	—	42	—	—	7,744
	Net capitalized costs	5,726	3,060	1,048	—	178	280	51	10,343
2003	Proved properties	7,751	6,339	1,466	—	151	120	—	15,827
	Unproved properties	227	88	95	—	67	16	3	496
	Incomplete wells and facilities	31	1	22	—	—	1	5	60
		8,009	6,428	1,583	—	218	137	8	16,383
	Less: accumulated depreciation, depletion and amortization	2,694	3,451	498	—	16	—	—	6,659
	Net capitalized costs	5,315	2,977	1,085	—	202	137	8	9,724
2002	Proved properties	6,939	5,592	1,422	986	217	45	—	15,201
	Unproved properties	214	14	156	36	29	9	—	458
	Incomplete wells and facilities	33	66	22	17	—	—	—	138
		7,186	5,672	1,600	1,039	246	54	—	15,797
	Less: accumulated depreciation, depletion and amortization	2,339	2,774	509	271	—	—	—	5,893
	Net capitalized costs	4,847	2,898	1,091	768	246	54	—	9,904

Costs Incurred in Oil and Gas Activities

Years ended December 31 (millions of Canadian dollars)			North America	North Sea	Southeast Asia	Sudan	Algeria	Trinidad	Other	Total
2004	Property acquisition costs	Proved	77	233	—	—	—	—	—	310
		Unproved	165	71	—	—	—	—	39	275
	Exploration costs		459	150	54	—	—	34	86	783
	Development costs		785	357	201	—	8	158	—	1,509
	Asset retirement costs		36	51	3	—	—	7	—	97
	Total costs incurred		1,522	862	258	—	8	199	125	2,974
2003	Property acquisition costs	Proved	369	189	—	—	—	—	—	558
		Unproved	184	2	—	—	—	—	3	189
	Exploration costs		336	99	70	7	4	58	90	664
	Development costs		600	397	246	(5)	30	72	—	1,340
	Asset retirement costs		125	285	5	—	—	—	—	415
	Total costs incurred		1,614	972	321	2	34	130	93	3,166
2002	Property acquisition costs	Proved	174	88	—	—	—	—	—	262
		Unproved	50	13	—	—	—	9	—	72
	Exploration costs		271	134	36	27	3	54	43	568
	Development costs		457	297	233	71	103	14	—	1,175
	Total costs incurred		952	532	269	98	106	77	43	2,077

Standardized Measure of Discounted Future Net Cash Flows from Proved Reserves

Future net cash flows were calculated by applying the respective year end prices to the Company's estimated future production of proved reserves and deducting estimates of future development, asset retirement, production and transportation costs and income taxes. Future costs have been estimated based on existing economic and operating conditions. Future income taxes have been estimated based on statutory tax rates enacted at year end. The present values of the estimated future cash flows were determined by applying a 10% discount rate prescribed by the FASB.

In order to increase the comparability between companies, the standardized measure of discounted future net cash flows necessarily employs uniform assumptions that do not necessarily reflect management's best estimate of future events and anticipated outcomes. Accordingly, the Company does not believe that the standardized measure of discounted future net cash flows will be representative of actual future net cash flows and should not be considered to represent the fair market value of the oil and gas properties. Actual future net cash flows will differ significantly from those estimated due to, but not limited to, the following:

- production rates will differ from those estimated both in terms of timing and amount. For example, future production may include significant additional volumes from unproved reserves;
- future prices and economic conditions will differ from those at year end. For example, changes in prices increased the discounted future net cash flows by \$3.5 billion in 2004;
- future production and development costs will be determined by future events and will differ from those at year end; and
- estimated income taxes will differ in terms of amounts and timing dependent on the above factors, changes in enacted rates and the impact of future expenditures on unproved properties.

The standardized measure of discounted future net cash flows was prepared using the following prices:

		2004	2003	2002
Crude oil and liquids (\$/bbl)	North America	34.27	33.32	42.07
	North Sea	46.65	37.89	46.84
	Southeast Asia	44.01	41.71	49.22
	Sudan	—	—	44.09
	Algeria	48.71	38.91	48.37
	Trinidad	42.67	39.12	45.72
		42.66	37.04	45.13
Natural gas (\$/mcf)	North America	7.32	6.32	6.06
	North Sea	6.25	5.55	5.59
	Southeast Asia	3.54	3.74	4.94
	Trinidad	1.81	1.03	1.26
		5.47	5.17	5.43

Discounted Future Net Cash Flows from Proved Reserves

As at December 31 (millions of Canadian dollars)		North America	North Sea	Southeast Asia	Sudan	Algeria	Trinidad	Total
2004	Future cash inflows ¹	20,825	14,916	7,525	—	1,071	854	45,191
	Future costs							
	Transportation	(501)	(494)	(655)	—	(61)	—	(1,711)
	Production	(4,847)	(7,028)	(1,235)	—	(148)	(128)	(13,386)
	Development and site restoration	(2,138)	(3,214)	(770)	—	(29)	(114)	(6,265)
	Future net inflows before income taxes	13,339	4,180	4,865	—	833	612	23,829
	Future income and production revenue taxes	(3,650)	(1,724)	(1,959)	—	(245)	(262)	(7,840)
	Future net cash flows	9,689	2,456	2,906	—	588	350	15,989
	10% discount factor	(3,845)	(302)	(1,402)	—	(165)	(115)	(5,829)
	Discounted future net cash flows	5,844	2,154	1,504	—	423	235	10,160
2003	Future cash inflows ¹	18,444	11,032	5,930	—	645	928	36,979
	Future costs							
	Production	(4,958)	(5,686)	(1,107)	—	(165)	(122)	(12,038)
	Development and site restoration	(1,490)	(1,989)	(697)	—	(14)	(248)	(4,438)
	Future net inflows before income taxes	11,996	3,357	4,126	—	466	558	20,503
	Future income and production revenue taxes	(3,664)	(1,393)	(1,601)	—	(107)	(299)	(7,064)
	Future net cash flows	8,332	1,964	2,525	—	359	259	13,439
	10% discount factor	(3,740)	(147)	(1,118)	—	(86)	(112)	(5,203)
	Discounted future net cash flows	4,592	1,817	1,407	—	273	147	8,236
2002	Future cash inflows ¹	19,639	13,160	6,627	4,090	675	1,143	45,334
	Future costs							
	Production	(4,325)	(5,577)	(1,040)	(999)	(230)	(157)	(12,328)
	Development and site restoration	(995)	(1,873)	(709)	(313)	(64)	(368)	(4,322)
	Future net inflows before income taxes	14,319	5,710	4,878	2,778	381	618	28,684
	Future income and production revenue taxes	(5,654)	(2,597)	(2,011)	(744)	(31)	(370)	(11,407)
	Future net cash flows	8,665	3,113	2,867	2,034	350	248	17,277
	10% discount factor	(3,913)	(554)	(1,387)	(655)	(97)	(161)	(6,767)
	Discounted future net cash flows	4,752	2,559	1,480	1,379	253	87	10,510

¹ Future cash inflows are revenues net of royalties.

Principal Sources of Changes in Discounted Cash Flows

Years ended December 31 (millions of Canadian dollars)	2004	2003	2002
Sales of oil and gas produced, net of production costs	(3,866)	(3,308)	(3,307)
Net change in prices	3,506	(3,200)	9,709
Net change in transportation costs	(954)	—	—
Net change in production costs	410	(357)	(1,990)
Net change in future development and site restoration costs	(638)	(87)	(637)
Development costs incurred during the year	623	672	764
Extensions, discoveries and improved recovery	2,386	1,229	1,863
Revisions of previous reserve estimates	(615)	92	37
Net purchases and sales of reserves in place	150	(1,225)	17
Accretion of discount	1,263	1,555	972
Net change in taxes	(598)	2,399	(3,342)
Other	257	(44)	(97)
Net change	1,924	(2,274)	3,989
Balance, beginning of year	8,236	10,510	6,521
Balance, end of year	10,160	8,236	10,510

Continuity of Net Proved Reserves¹

	North America ²	North Sea	Southeast Asia	Algeria	Sudan	Trinidad	Total
Crude Oil and Liquids (mmmbbls)							
Total Proved							
Proved reserves at December 31, 2001	175.8	260.2	39.6	16.9	116.3	—	608.8
Discoveries, additions and extensions	10.6	13.5	5.8	1.3	19.0	18.9	69.1
Purchase of reserves	1.1	7.5	—	—	—	—	8.6
Sale of reserves	(3.7)	(2.8)	—	—	—	—	(6.5)
Net revisions and transfers	(2.5)	13.9	(4.2)	(4.3)	(27.7)	—	(24.8)
2002 Production	(17.2)	(44.7)	(5.1)	—	(13.3)	—	(80.3)
Proved reserves at December 31, 2002	164.1	247.6	36.1	13.9	94.3	18.9	574.9
Discoveries, additions and extensions	13.1	8.3	17.0	2.3	—	—	40.7
Purchase of reserves	1.1	21.1	—	—	—	—	22.2
Sale of reserves	(4.6)	—	—	—	(91.7)	—	(96.3)
Net revisions and transfers	1.1	19.4	4.8	0.5	—	(0.8)	25.0
2003 Production	(16.4)	(41.4)	(5.4)	(0.1)	(2.6)	—	(65.9)
Proved reserves at December 31, 2003	158.4	255.0	52.5	16.6	—	18.1	500.6
Discoveries, additions and extensions	14.0	29.7	2.0	8.1	—	—	53.8
Purchase of reserves	0.2	34.0	0.9	—	—	—	35.1
Sale of reserves	(2.1)	(3.3)	—	—	—	—	(5.4)
Net revisions and transfers	(2.5)	24.0	(1.3)	0.3	—	(7.2)	13.3
2004 Production	(15.8)	(44.3)	(7.9)	(3.1)	—	—	(71.1)
Proved reserves at December 31, 2004	152.2	295.1	46.2	21.9	—	10.9	526.3
Proved Developed							
December 31, 2001	168.6	203.8	13.3	—	89.6	—	475.3
December 31, 2002	157.2	210.8	11.9	2.4	84.1	—	466.4
December 31, 2003	155.4	211.8	18.6	14.6	—	—	400.4
December 31, 2004	142.6	252.3	19.2	16.5	—	10.5	441.1
Natural Gas (bcf)							
Total Proved							
Proved reserves at December 31, 2001	2,052.6	267.3	1,112.1	—	—	—	3,432.0
Discoveries, additions and extensions	283.1	14.0	11.7	—	—	220.0	528.8
Purchase of reserves	31.5	0.4	—	—	—	—	31.9
Sale of reserves	(26.7)	—	—	—	—	—	(26.7)
Net revisions and transfers	(110.8)	(4.3)	(122.6)	—	—	—	(237.7)
2002 Production	(243.6)	(39.5)	(32.3)	—	—	—	(315.4)
Proved reserves at December 31, 2002	1,986.1	237.9	968.9	—	—	220.0	3,412.9
Discoveries, additions and extensions	276.3	1.0	64.0	—	—	—	341.3
Purchase of reserves	92.2	14.4	—	—	—	—	106.6
Sale of reserves	(11.4)	—	—	—	—	—	(11.4)
Net revisions and transfers	(14.9)	19.8	(6.1)	—	—	(9.0)	(10.2)
2003 Production	(247.6)	(37.5)	(40.1)	—	—	—	(325.2)
Proved reserves at December 31, 2003	2,080.7	235.6	986.7	—	—	211.0	3,514.0
Discoveries, additions and extensions	370.6	8.0	521.9	—	—	—	900.5
Purchase of reserves	19.1	0.1	—	—	—	—	19.2
Sale of reserves	(57.1)	(0.5)	—	—	—	—	(57.6)
Net revisions and transfers	(19.2)	(26.4)	93.5	—	—	5.5	53.4
2004 Production	(260.6)	(39.5)	(47.3)	—	—	—	(347.4)
Proved reserves at December 31, 2004	2,133.5	177.3	1,554.8	—	—	216.5	4,082.1
Proved Developed							
December 31, 2001	1,804.7	213.8	252.0	—	—	—	2,270.5
December 31, 2002	1,746.9	210.0	471.6	—	—	—	2,428.5
December 31, 2003	1,890.4	200.7	593.9	—	—	—	2,685.0
December 31, 2004	1,788.2	150.0	624.0	—	—	—	2,562.2

¹ See oil and gas advisory on page 24.

² North American net proved reserves exclude synthetic crude oil reserves: 2002 – 36.7 mmbbls; 2003 – 35.8 mmbbls; 2004 – 35.2 mmbbls.

Additional Information

Historical Financial Summary

(millions of Canadian dollars unless otherwise stated)

Years ended December 31	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Balance Sheets										
Current assets	970	975	917	799	1,042	730	272	471	362	256
Other assets	125	139	166	92	82	93	100	88	63	51
Goodwill	466	473	469	467	—	—	—	—	—	—
Property, plant and equipment	10,847	10,193	10,465	9,870	7,904	7,363	5,184	4,636	3,536	2,796
Total assets	12,408	11,780	12,017	11,228	9,028	8,186	5,556	5,195	3,961	3,103
Current liabilities	1,643	1,218	989	1,204	1,311	1,060	576	497	338	225
Deferred credits and other liabilities	3,477	3,341	3,457	3,052	2,366	1,344	781	795	633	345
Long-term debt	2,457	2,203	2,997	2,794	1,703	2,157	2,071	1,739	899	906
Shareholders' equity	4,831	5,018	4,574	4,178	3,648	3,625	2,128	2,164	2,091	1,627
Total liabilities and shareholders' equity	12,408	11,780	12,017	11,228	9,028	8,186	5,556	5,195	3,961	3,103
Income Statements										
Revenue										
Gross sales	6,874	5,610	5,351	5,039	5,213	2,424	1,551	1,729	1,427	1,006
Less hedging loss/(gain)	480	194	(75)	(8)	377	106	17	29	20	(5)
Gross sales, net of hedging	6,394	5,416	5,426	5,047	4,836	2,318	1,534	1,700	1,407	1,011
Less royalties	1,124	894	927	989	946	389	214	312	224	144
Net sales	5,270	4,522	4,499	4,058	3,890	1,929	1,320	1,388	1,183	867
Other	85	76	80	82	99	46	51	42	30	32
Total revenue	5,355	4,598	4,579	4,140	3,989	1,975	1,371	1,430	1,213	899
Expenses										
Operating	1,198	1,039	1,048	946	827	604	581	480	300	245
Transportation	192	181	194	—	—	—	—	—	—	—
General and administrative	183	152	138	108	95	70	59	57	56	57
Depreciation, depletion and amortization	1,650	1,435	1,462	1,283	1,103	729	597	532	425	374
Dry hole	311	251	174	113	77	51	91	42	65	26
Exploration	238	213	185	147	100	79	102	92	63	50
Interest on long-term debt	158	137	164	139	136	120	91	51	69	86
Stock based compensation	171	185	—	—	—	—	—	—	—	—
Other	89	16	113	78	64	(140)	230	(15)	(25)	(33)
Total expenses	4,190	3,609	3,478	2,814	2,402	1,513	1,751	1,239	953	805
Gain on sale of Sudan operations	—	296	—	—	—	—	—	—	—	—
Income (loss) before taxes	1,165	1,285	1,101	1,326	1,587	462	(380)	191	260	94
Taxes										
Current income tax	478	229	258	342	334	49	15	38	51	11
Future income tax (recovery)	(105)	(48)	175	84	216	116	(93)	64	82	48
Petroleum revenue tax	129	92	124	149	150	31	20	32	35	—
	502	273	557	575	700	196	(58)	134	168	59
Net income (loss)	663	1,012	544	751	887	266	(322)	57	92	35
Preferred security charges, net of tax	(9)	(22)	(24)	(24)	(22)	(13)	—	—	—	—
Gain on redemption of preferred securities	23	—	—	—	—	—	—	—	—	—
Income from discontinued operations	—	—	—	—	—	—	—	—	—	6
Net income (loss) available to common shareholders	677	990	520	727	865	253	(322)	57	92	41

Consolidated Financial Ratios

The following financial ratios are provided in connection with the Company's shelf prospectuses filed with Canadian and US securities regulatory authorities and are based on the Company's consolidated financial statements that are prepared in accordance with accounting principles generally accepted in Canada.

The asset coverage ratios are calculated as at December 31, 2004. The interest coverage ratios are for the 12-month period then ended.

December 31, 2004		Preferred Securities as Equity ⁵	Preferred Securities as Debt ⁶
Interest coverage (times)			
Income ¹		6.97	6.40
Cash flow ²		20.81	19.13
Asset coverage (times)			
Before deduction of future income taxes and deferred credits ³		4.38	4.38
After deduction of future income taxes and deferred credits ⁴		2.97	2.97

¹ Net income plus income taxes and interest expense; divided by the sum of interest expense and capitalized interest.

² Cash flow plus current income taxes and interest expense; divided by the sum of interest expense and capitalized interest.

³ Total assets minus current liabilities; divided by long-term debt.

⁴ Total assets minus current liabilities and long-term liabilities excluding long-term debt; divided by long-term debt.

⁵ The Company's preferred securities, which were redeemed during 2004, were classified as equity and the related charges have been excluded from interest expense.

⁶ Reflects adjusted ratios, had the preferred securities been treated as debt and the related charges been included in interest expense.

Ratios and Key Indicators

(millions of Canadian dollars unless otherwise stated)

Years ended December 31	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Net income	663	1,012	544	751	887	266	(322)	57	92	35
Cash flow ¹	2,931	2,729	2,645	2,494	2,413	1,111	631	797	697	502
Exploration and development spending	2,538	2,180	1,848	1,882	1,179	996	1,145	951	557	379
Net acquisitions and dispositions	242	668	204	139	350	349	(92)	55	161	7
Debt/debt+equity (%)	34	31	40	42	32	38	50	45	30	36
Debt/cash flow (times)	0.84	0.81	1.13	1.20	0.72	1.98	3.31	2.18	1.29	1.80
Per common share (dollars)										
Net income (loss) (\$)	1.77	2.56	1.29	1.80	2.09	0.67	(0.96)	0.17	0.30	0.14
Cash flow (\$) ¹	7.65	7.07	6.58	6.16	5.84	2.97	1.88	2.43	2.24	1.73
Production (boe)	0.42	0.38	0.40	0.38	0.36	0.30	0.29	0.27	0.24	0.23
Proved gross reserves (at year end) (boe)	4.0	3.5	3.8	3.7	2.9	2.6	2.5	2.3	1.9	1.7
Average royalty rate (%)	16	16	17	20	18	16	14	18	16	14
Unit operating costs (\$/boe)	7.04	6.74	6.06	5.79	5.19	5.14	5.61	5.24	3.78	3.42
Unit DD&A (\$/boe)	10.29	9.87	8.99	8.39	7.37	7.54	6.03	6.08	5.60	5.52
Return on capital employed (%) ²	10.6	14.9	9.0	13.7	17.6	6.9	(6.5)	2.6	5.0	3.5
Return on active capital employed (%) ³	12.3	17.3	10.8	16.8	20.8	8.6	(8.8)	3.4	6.1	4.1
Return on equity (%) ⁴	13.5	21.1	12.4	19.2	24.4	9.2	(15.0)	2.7	4.9	2.2

¹ Non-GAAP measure. See advisory on page 24.

² Net income plus tax effected interest/(average shareholders' equity + average debt).

³ Net income plus tax effected interest/(average shareholders' equity + average debt - average non-depleted capital).

⁴ Net income/average shareholders' equity.

Historical Operations Summary

Years ended December 31	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Daily Average Production										
Crude oil (bbls/d)										
North America	41,775	44,456	46,287	50,424	51,005	44,806	45,103	40,627	34,169	31,019
North Sea	119,502	110,613	124,965	108,163	109,096	57,267	54,988	48,065	30,675	16,987
Southeast Asia	34,050	23,159	21,925	20,326	19,627	28,286	31,684	28,458	22,621	18,121
Algeria	13,537	6,594	—	—	—	—	—	—	—	—
Sudan	—	13,039	60,109	53,257	45,869	11,726	—	—	—	—
Natural gas liquids (bbls/d)										
North America	12,618	12,473	13,521	12,851	12,829	10,918	9,818	8,054	7,598	7,097
North Sea	2,359	2,462	2,521	2,665	2,806	1,989	2,492	2,437	2,363	1,791
Southeast Asia	1,594	1,271	544	547	579	566	—	—	—	—
Synthetic oil (Canada) (bbls/d)	2,999	2,649	2,868	2,781	2,540	2,765	2,664	2,536	2,534	2,527
Total oil and liquids	228,434	216,716	272,740	251,014	244,351	158,323	146,749	130,177	99,960	77,542
Natural gas (mmcf/d)										
North America	885	864	820	809	755	681	631	558	557	581
North Sea	114	109	122	108	122	115	104	100	90	69
Southeast Asia	260	117	94	93	111	108	13	—	—	—
Total natural gas	1,259	1,090	1,036	1,010	988	904	748	658	647	650
Total (mboe/d)	438	398	445	419	409	309	271	240	208	186
WTI (average US\$/bbl)	41.40	30.99	26.15	25.92	30.26	19.30	14.37	20.61	22.02	18.40
NYMEX gas (average US\$/mmbtu)	6.09	5.44	3.25	4.38	4.30	2.27	2.08	2.48	2.67	1.71
US\$/C\$ exchange rate (year end)	0.8308	0.7738	0.6331	0.6279	0.6666	0.6887	0.6511	0.6987	0.7298	0.7331

The following table provides information on product netbacks on a gross basis in Canadian dollars on a quarterly basis for the periods indicated.

Product Netbacks

C\$ Gross		2004				2003				2002
		Total	Three months ended			Total	Three months ended			Total
		Year	Dec 31	Sep 30	Jun 30	Mar 31	Year	Dec 31	Sep 30	Mar 31
North America	Oil and liquids (\$/bbl)									
	Sales price	42.11	44.05	45.47	41.39	37.56	35.78	32.39	33.94	33.43
	Hedging (gain)	5.95	8.64	7.28	4.81	3.07	2.45	2.07	2.05	1.26
	Royalties	8.59	8.76	9.51	8.52	7.57	7.37	6.86	6.81	6.50
	Transportation	0.49	0.46	0.53	0.48	0.51	0.48	0.51	0.51	0.51
	Operating costs	6.75	7.79	6.64	6.67	5.90	6.28	6.76	6.21	5.89
		20.33	18.40	21.51	20.91	20.51	19.20	16.19	18.36	19.27
										22.82
										19.97
	Natural gas (\$/mcf)									
North Sea	Sales price	6.83	6.99	6.63	7.08	6.61	6.58	5.31	6.14	6.63
	Hedging (gain)	0.10	0.04	0.14	0.16	0.06	0.11	(0.04)	0.03	0.12
	Royalties	1.31	1.20	1.29	1.44	1.32	1.37	1.08	1.18	1.54
	Transportation	0.20	0.21	0.20	0.20	0.19	0.21	0.20	0.22	0.22
	Operating costs	0.79	0.80	0.81	0.80	0.77	0.75	0.78	0.77	0.70
		4.43	4.74	4.19	4.48	4.27	4.14	3.29	3.94	4.05
										5.26
										2.78
	Natural gas (\$/mcf)									
Southeast Asia	Sales price	5.55	6.08	4.88	5.17	5.85	4.77	5.10	4.26	4.30
	Hedging (gain)	—	—	—	—	—	—	—	—	—
	Royalties	0.42	0.37	0.46	0.13	0.66	0.28	0.63	0.09	0.04
	Transportation	0.35	0.38	0.32	0.31	0.37	0.37	0.39	0.39	0.34
	Operating costs	0.55	0.72	0.69	0.58	0.28	0.37	0.33	0.50	0.18
		4.23	4.61	3.41	4.15	4.54	3.75	3.75	3.28	3.74
										4.10
										2.80
	Oil and liquids (\$/bbl)									
Southeast Asia	Sales price	51.29	53.81	56.95	50.19	44.10	41.35	41.56	38.58	38.15
	Hedging (gain)	—	—	—	—	—	2.37	2.10	2.07	1.26
	Royalties	21.24	21.94	23.37	21.77	17.82	16.09	15.69	14.43	15.86
	Transportation	0.23	0.18	0.20	0.28	0.25	0.41	0.27	0.47	0.44
	Operating costs	5.57	5.60	6.60	5.30	4.78	7.22	6.76	6.98	7.12
		24.25	26.09	26.78	22.84	21.25	15.26	16.74	14.63	13.47
										15.70
										16.64
	Natural gas (\$/mcf)									
Southeast Asia	Sales price	4.74	4.55	5.03	4.85	4.50	5.72	5.31	5.21	5.86
	Hedging (gain)	—	—	—	—	—	—	—	—	—
	Royalties	1.19	1.20	1.39	1.33	0.81	0.29	0.33	0.24	0.27
	Transportation	0.41	0.38	0.40	0.43	0.42	0.77	0.68	0.80	0.81
	Operating costs	0.27	0.25	0.25	0.28	0.29	0.50	0.41	0.53	0.49
		2.87	2.72	2.99	2.81	2.98	4.16	3.89	3.64	4.29
										5.11
										3.88

Product Netbacks (continued)

C\$ Gross	Oil (\$/bbl)	2004				2003				2002	
		Total	Three months ended			Total	Three months ended			Total	
		Year	Dec 31	Sep 30	Jun 30	Mar 31	Year	Dec 31	Sep 30	Mar 31	
Algeria	Oil (\$/bbl)										
	Sales price	51.17	46.50	63.98	49.09	44.62	39.01	39.70	39.37	35.05	40.33
	Hedging (gain)	—	—	—	—	—	2.23	2.11	2.07	1.26	4.40
	Royalties	19.65	18.48	20.15	17.34	22.59	19.18	18.52	20.38	18.04	20.16
	Transportation	1.76	1.64	1.79	1.84	1.80	1.77	1.64	1.87	1.88	1.88
	Operating costs	3.51	3.77	3.86	4.75	1.71	5.07	2.66	10.37	2.19	4.35
		26.25	22.61	38.18	25.16	18.52	10.76	14.77	4.68	11.68	9.54
Sudan	Oil (\$/bbl)										
	Sales price	—	—	—	—	—	43.89	—	—	—	43.89
	Hedging (gain)	—	—	—	—	—	—	—	—	—	0.07
	Royalties	—	—	—	—	—	20.34	—	—	—	20.34
	Operating costs	—	—	—	—	—	3.73	—	—	—	3.73
		—	—	—	—	—	19.82	—	—	—	19.82
Total Company	Oil and liquids (\$/bbl)										
	Sales price	47.45	49.10	53.30	46.42	41.15	39.09	37.68	37.33	35.07	44.98
	Hedging (gain)	5.42	7.53	7.15	4.31	2.67	2.05	2.08	2.01	0.65	3.14
	Royalties	6.84	6.85	7.86	6.71	6.00	5.59	5.13	4.20	3.83	8.53
	Transportation	0.88	0.84	0.95	0.87	0.87	0.83	0.81	0.88	0.97	0.75
	Operating costs	9.89	9.42	11.08	9.88	9.26	8.96	8.85	9.19	9.10	8.74
		24.42	24.46	26.26	24.65	22.35	21.66	20.81	21.05	20.52	23.82
	Natural gas (\$/mcf)										
	Sales price	6.28	6.38	6.15	6.47	6.13	6.30	5.29	5.87	6.36	7.76
	Hedging (gain)	0.07	0.03	0.10	0.12	0.04	0.08	(0.03)	0.02	0.10	0.25
	Royalties	1.21	1.12	1.25	1.31	1.15	1.14	0.93	0.98	1.28	1.40
	Transportation	0.26	0.26	0.25	0.26	0.25	0.28	0.29	0.30	0.28	0.29
	Operating costs	0.66	0.67	0.68	0.68	0.63	0.69	0.68	0.72	0.64	0.71
		4.08	4.30	3.87	4.10	4.06	4.11	3.42	3.85	4.06	5.11
											2.89

Netbacks do not include synthetic oil or pipeline operations.

Information on Net Production and Product Netbacks in US dollars is provided for US readers.

Net Production (after royalties)

		2004	2003	2002	2001	2000
Crude Oil and Liquids (bbls/d)						
North America		43,303	45,035	47,182	49,145	49,018
North Sea		120,768	113,291	122,231	105,138	107,554
Southeast Asia		20,884	14,853	14,025	14,667	13,853
Algeria		8,338	3,351	—	—	—
Sudan		—	6,997	36,346	32,422	28,001
Total oil and liquids		193,293	183,527	219,784	201,372	198,426
Natural Gas (mmcf/d)						
North America		715	678	665	608	582
North Sea		105	103	107	97	117
Southeast Asia		194	110	89	89	104
Total natural gas		1,014	891	861	794	803
Total conventional (mboe/d)		362	332	363	334	332
Synthetic Oil (Canada) (mboe/d)		2.9	2.5	2.8	2.4	1.9
Total (mboe/d)		365	334	366	337	335

Product Netbacks (net of royalties)

(Net of Royalties) — US\$

		2004	2003	2002
North America	Oil and Liquids (US\$/bbl)			
	Sales Price	32.44	25.64	20.96
	Hedging (gain)	5.81	2.21	0.04
	Transportation	0.48	0.44	0.31
	Operating costs	6.55	5.67	4.48
		19.60	17.32	16.13
	Natural Gas (US\$/mcf)			
	Sales Price	5.26	4.74	2.70
	Hedging (gain)	0.10	0.10	(0.22)
	Transportation	0.19	0.19	0.18
	Operating costs	0.76	0.68	0.56
		4.21	3.77	2.18
North Sea	Oil and Liquids (US\$/bbl)			
	Sales Price	37.23	28.35	24.68
	Hedging (gain)	5.77	1.43	0.08
	Transportation	0.89	0.83	0.82
	Operating costs	10.28	8.19	6.56
		20.29	17.90	17.22
	Natural Gas (US\$/mcf)			
	Sales Price	4.29	3.41	2.68
	Hedging (gain)	—	—	—
	Transportation	0.29	0.28	0.33
	Operating costs	0.47	0.28	0.31
		3.53	2.85	2.04
Southeast Asia	Oil and Liquids (US\$/bbl)			
	Sales Price	39.49	29.66	25.80
	Hedging (gain)	—	2.78	0.06
	Transportation	0.30	0.48	0.84
	Operating costs	7.32	8.48	7.92
		31.87	17.92	16.98
	Natural Gas (US\$/mcf)			
	Sales Price	3.65	4.12	3.63
	Hedging (gain)	—	—	—
	Transportation	0.42	0.59	0.62
	Operating costs	0.27	0.38	0.40
		2.96	3.15	2.61
Algeria	Oil and Liquids (US\$/bbl)			
	Sales Price	39.48	27.84	—
	Hedging (gain)	—	3.13	—
	Transportation	2.20	2.55	—
	Operating costs	4.41	7.06	—
		32.87	15.10	—
Sudan	Oil and Liquids (US\$/bbl)			
	Sales Price	—	31.33	24.06
	Hedging (gain)	—	—	0.08
	Operating costs	—	4.96	4.02
		—	26.37	19.96
Total Company	Oil and Liquids (US\$/bbl)			
	Sales Price	36.57	27.90	23.85
	Hedging (gain)	4.90	1.71	0.07
	Transportation	0.79	0.70	0.58
	Operating costs	8.87	7.46	5.78
		22.01	18.03	17.42
	Natural Gas (US\$/mcf)			
	Sales Price	4.84	4.50	2.80
	Hedging (gain)	0.07	0.07	(0.17)
	Transportation	0.25	0.25	0.25
	Operating costs	0.63	0.59	0.51
		3.89	3.59	2.21

Netbacks do not include synthetic oil or pipeline operations.

Historical Gross Proved Reserves¹

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Crude Oil and Liquids (mmbls)										
Opening balance	167.8	167.9	225.9	300.3	416.5	557.1	631.8	737.6	716.9	579.2
Discoveries, additions and extensions	15.4	33.8	68.7	83.3	62.0	72.5	143.9	90.2	53.3	74.0
Dispositions and acquisitions	0.9	35.6	29.0	67.3	111.3	57.2	36.7	1.5	(139.0)	29.7
Net revisions and transfers	11.2	24.3	23.2	18.2	24.1	33.5	15.8	(13.9)	26.3	17.3
Production	(27.4)	(35.7)	(46.5)	(52.6)	(56.8)	(88.5)	(90.6)	(98.5)	(78.3)	(82.5)
Closing balance	167.9	225.9	300.3	416.5	557.1	631.8	737.6	716.9	579.2	617.7
Natural Gas (bcf)										
Opening balance	1,852.1	1,901.8	2,301.7	2,663.5	2,834.4	3,221.0	3,272.3	4,496.5	4,607.3	4,695.5
Discoveries, additions and extensions	195.3	263.9	407.6	396.0	301.0	472.3	1,045.8	632.8	459.5	1,251.8
Dispositions and acquisitions	9.5	34.2	289.6	(51.7)	368.6	(53.9)	537.4	3.2	107.2	(50.3)
Net revisions and transfers	82.0	338.7	(95.2)	100.2	47.4	(5.0)	10.0	(146.0)	(80.1)	(212.1)
Production	(237.1)	(236.9)	(240.2)	(273.6)	(330.4)	(362.1)	(369.0)	(379.2)	(398.4)	(461.7)
Closing balance	1,901.8	2,301.7	2,663.5	2,834.4	3,221.0	3,272.3	4,496.5	4,607.3	4,695.5	5,223.2
BOE² (mmboe)										
Opening balance	476.5	485.0	609.5	744.2	888.8	1,094.0	1,177.2	1,487.0	1,484.7	1,361.9
Discoveries, additions and extensions	47.9	77.7	136.6	149.2	112.0	151.1	318.2	195.7	129.8	282.6
Dispositions and acquisitions	2.5	41.3	77.3	58.7	172.8	48.1	126.2	2.1	(121.1)	21.4
Net revisions and transfers	25.0	80.7	7.4	34.9	32.2	32.8	17.5	(38.4)	13.2	(18.2)
Production	(66.9)	(75.2)	(86.6)	(98.2)	(111.8)	(148.8)	(152.1)	(161.7)	(144.7)	(159.5)
Closing balance (gross)	485.0	609.5	744.2	888.8	1,094.0	1,177.2	1,487.0	1,484.7	1,361.9	1,488.3

¹ See oil and gas advisory on page 24.

² Six mcf of natural gas equals one boe.

Probable Reserves¹

	North America	North Sea	Southeast Asia	Algeria	Trinidad	Total
Crude Oil and Liquids (mmbls)						
Probable reserves at December 31, 2003	86.8	172.3	63.3	40.2	19.3	381.9
Discoveries, additions and extensions	14.3	33.5	(18.8)	6.2	—	35.2
Dispositions and acquisitions	(0.3)	22.1	1.0	—	—	22.8
Net revisions and transfers	(25.2)	(26.3)	13.5	(3.0)	(15.6)	(56.6)
Probable reserves at December 31, 2004	75.6	201.6	59.0	43.4	3.7	383.3
Natural Gas (bcf)						
Probable reserves at December 31, 2003	1,359.6	134.6	1,320.2	—	131.9	2,946.3
Discoveries, additions and extensions	478.1	(4.0)	(780.8)	—	—	(306.7)
Dispositions and acquisitions	(17.2)	1.2	(67.5)	—	—	(83.5)
Net revisions and transfers	(497.5)	(54.5)	673.8	—	(54.3)	67.5
Probable reserves at December 31, 2004	1,323.0	77.3	1,145.7	—	77.6	2,623.6
BOE² (mmboe)						
Probable reserves at December 31, 2003	313.4	194.7	283.4	40.2	41.3	873.0
Discoveries, additions and extensions	94.0	32.8	(148.9)	6.2	—	(15.9)
Dispositions and acquisitions	(3.2)	22.3	(10.3)	—	—	8.8
Net revisions and transfers	(108.1)	(35.3)	125.7	(3.0)	(24.7)	(45.4)
Probable reserves at December 31, 2004	296.1	214.5	249.9	43.4	16.6	820.5

¹ Gross probable reserves, excluding sulphur and synthetic oil. See oil and gas advisory on page 24.

² Six mcf of natural gas equals one boe.

Continuity of Gross Proved Reserves¹

	North America ²	North Sea	Southeast Asia	Algeria	Sudan	Trinidad	Total
Crude Oil and Liquids (mmmbbls)							
Total Proved							
Proved reserves at December 31, 2001	212.3	274.5	59.3	35.2	156.3	—	737.6
Discoveries, additions and extensions	13.0	13.5	9.6	2.6	32.3	19.2	90.2
Purchase of reserves	1.4	7.5	—	—	—	—	8.9
Sale of reserves	(4.6)	(2.8)	—	—	—	—	(7.4)
Net revisions and transfers	(1.2)	3.5	—	(10.4)	(5.8)	—	(13.9)
2002 Production	(21.8)	(46.5)	(8.3)	—	(21.9)	—	(98.5)
Proved reserves at December 31, 2002	199.1	249.7	60.6	27.4	160.9	19.2	716.9
Discoveries, additions and extensions	16.0	8.2	25.2	3.9	—	—	53.3
Purchase of reserves	1.3	21.1	—	—	—	—	22.4
Sale of reserves	(5.3)	—	—	—	(156.1)	—	(161.4)
Net revisions and transfers	(0.1)	18.7	7.6	0.1	—	—	26.3
2003 Production	(20.8)	(41.3)	(9.0)	(2.4)	(4.8)	—	(78.3)
Proved reserves at December 31, 2003	190.2	256.4	84.4	29.0	—	19.2	579.2
Discoveries, additions and extensions	17.3	29.8	13.0	13.9	—	—	74.0
Purchase of reserves	0.2	34.1	1.3	—	—	—	35.6
Sale of reserves	(2.6)	(3.3)	—	—	—	—	(5.9)
Net revisions and transfers	(2.2)	24.6	3.4	(0.7)	—	(7.8)	17.3
2004 Production	(19.9)	(44.6)	(13.0)	(5.0)	—	—	(82.5)
Proved reserves at December 31, 2004	183.0	297.0	89.1	37.2	—	11.4	617.7
Proved Developed							
December 31, 2001	203.0	215.7	20.4	—	120.4	—	559.5
December 31, 2002	190.0	212.6	19.7	4.8	143.4	—	570.5
December 31, 2003	186.4	213.0	29.5	25.5	—	—	454.4
December 31, 2004	171.0	254.0	39.9	27.9	—	11.0	503.8
Natural Gas (bcf)							
Total Proved							
Proved reserves at December 31, 2001	2,596.8	302.2	1,597.5	—	—	—	4,496.5
Discoveries, additions and extensions	374.2	15.4	19.7	—	—	223.5	632.8
Purchase of reserves	37.7	0.4	—	—	—	—	38.1
Sale of reserves	(34.9)	—	—	—	—	—	(34.9)
Net revisions and transfers	(80.3)	(11.3)	(54.4)	—	—	—	(146.0)
2002 Production	(300.1)	(44.6)	(34.5)	—	—	—	(379.2)
Proved reserves at December 31, 2002	2,593.4	262.1	1,528.3	—	—	223.5	4,607.3
Discoveries, additions and extensions	351.5	1.0	107.0	—	—	—	459.5
Purchase of reserves	107.1	14.4	—	—	—	—	121.5
Sale of reserves	(14.3)	—	—	—	—	—	(14.3)
Net revisions and transfers	(77.0)	17.5	(20.6)	—	—	—	(80.1)
2003 Production	(315.8)	(39.9)	(42.7)	—	—	—	(398.4)
Proved reserves at December 31, 2003	2,644.9	255.1	1,572.0	—	—	223.5	4,695.5
Discoveries, additions and extensions	478.5	8.0	765.3	—	—	—	1,251.8
Purchase of reserves	22.8	0.1	—	—	—	—	22.9
Sale of reserves	(72.7)	(0.5)	—	—	—	—	(73.2)
Net revisions and transfers	(113.2)	(33.2)	(58.7)	—	—	(7.0)	(212.1)
2004 Production	(324.9)	(41.6)	(95.2)	—	—	—	(461.7)
Proved reserves at December 31, 2004	2,635.4	187.9	2,183.4	—	—	216.5	5,223.2
Proved Developed							
December 31, 2001	2,281.8	247.4	358.5	—	—	—	2,887.7
December 31, 2002	2,278.7	232.8	723.8	—	—	—	3,235.3
December 31, 2003	2,404.0	220.1	920.9	—	—	—	3,545.0
December 31, 2004	2,207.3	160.6	858.2	—	—	—	3,226.1

¹ See oil and gas advisory on page 24.

² North American gross proved reserves exclude synthetic crude oil reserves: 2002 – 43.2 mmbbls; 2003 – 42.3 mmbbls; 2004 – 41.2 mmbbls.

For Continuity of net proved reserves, see page 57.

Detailed Property Reviews

2004 Landholdings

(thousands of acres)	Developed		Undeveloped		Total	
	Gross	Net	Gross	Net	Gross	Net
Canada						
Western Canada	2,924	1,544	5,274	3,522	8,198	5,066
Ontario	365	237	753	521	1,118	758
Other ¹	2	—	3,649	247	3,651	247
United States²	28	26	1,506	1,218	1,534	1,244
Total North America	3,319	1,807	11,182	5,508	14,501	7,315
North Sea	608	247	4,452	2,121	5,060	2,368
Southeast Asia						
Indonesia	268	102	2,011	621	2,279	723
Malaysia and Vietnam	224	93	6,007	2,672	6,231	2,765
Papua New Guinea	—	—	858	325	858	325
Total Southeast Asia	492	195	8,876	3,618	9,368	3,813
Algeria	77	5	751	263	828	268
Trinidad and Tobago	24	6	300	130	324	136
Other ³	—	—	5,441	2,676	5,441	2,676
Total International	1,201	453	19,820	8,808	21,021	9,261
Total Worldwide	4,520	2,260	31,002	14,316	35,522	16,576
Synthetic Oil	11	1	477	85	488	86

1 "Other" includes minor properties in Canada, but excludes Scotian Slope, synthetic oil in Alberta and coal leases in British Columbia.

2 Excludes Alaska.

3 Includes Alaska, Colombia, Peru, Qatar, Falkland Islands and Scotian Slope.

2004 Drilling

Year Ended December 31, 2004	Exploration				Development				Total				
	Oil	Gas	Dry	Total	Oil	Gas	Dry	Total	Oil	Gas	Dry	Total	
North America													
Canada	Gross	16.0	123.0	15.0	154.0	121.0	301.0	23.0	445.0	137.0	424.0	38.0	599.0
	Net	13.4	64.0	11.5	88.9	66.9	183.0	18.6	268.5	80.3	247.0	30.1	357.4
United States ¹	Gross	—	20.0	1.0	21.0	—	—	—	—	—	20.0	1.0	21.0
	Net	—	15.9	1.0	16.9	—	—	—	—	—	15.9	1.0	16.9
North Sea ²	Gross	3.0	—	6.0	9.0	17.0	—	1.0	18.0	20.0	—	7.0	27.0
	Net	1.9	—	4.3	6.2	6.0	—	0.8	6.8	7.9	—	5.1	13.0
Southeast Asia													
Indonesia	Gross	—	—	2.0	2.0	9.0	—	—	9.0	9.0	—	2.0	11.0
	Net	—	—	0.7	0.7	3.8	—	—	3.8	3.8	—	0.7	4.5
Malaysia and Vietnam	Gross	1.0	—	3.0	4.0	12.0	2.0	1.0	15.0	13.0	2.0	4.0	19.0
	Net	0.4	—	1.6	2.0	5.0	0.8	0.4	6.2	5.4	0.8	2.0	8.2
Algeria	Gross	—	—	—	—	3.0	—	—	3.0	3.0	—	—	3.0
	Net	—	—	—	—	0.1	—	—	0.1	0.1	—	—	0.1
Trinidad and Tobago	Gross	1.0	1.0	—	2.0	11.0	—	1.0	12.0	12.0	1.0	1.0	14.0
	Net	0.3	0.3	—	0.6	2.8	—	0.3	3.1	3.1	0.3	0.3	3.7
Other ³	Gross	—	—	4.0	4.0	—	—	—	—	—	—	4.0	4.0
	Net	—	—	1.6	1.6	—	—	—	—	—	—	1.6	1.6
Total	Gross	21.0	144.0	31.0	196.0	173.0	303.0	26.0	502.0	194.0	447.0	57.0	698.0
	Net	16.0	80.2	20.7	116.9	84.6	183.8	20.1	288.5	100.6	264.0	40.8	405.4

Water injection, source and disposal wells are not included.

1 Excludes Alaska.

2 "North Sea" includes United Kingdom, Norway and the Netherlands Continental Shelf.

3 "Other" includes Alaska, Colombia and Peru.

Five Year Drilling Results

	2004	2003	2002	2001	2000		2004	2003	2002	2001	2000	
North America												
Total oil wells	137	204	146	258	282		Total oil wells	57	51	55	131	96
Total gas wells	444	378	223	241	256		Total gas wells	3	18	7	7	7
Drilling success (%)	94	93	87	90	88		Drilling success (%)	77	90	77	83	87

Property Review:

All production volumes are shown before royalties.

Prior year statistics have been revised as necessary, such that all reported numbers are stated within the definitions used for 2004.

North America

Property	Average WI (%)	2004	2003	2002
Greater Arch				
Production:				
Oil & Liquids (bbls/d)	54	7,387	9,174	10,179
Natural Gas (mmcf/d)	74	158.5	183.2	191.3
Drilling:				
Capital Expenditures:				
Total Production (boe/d)		33,803	39,710	42,060
Number of wells		94	77	85
(C\$ million)		176.3	148.3	139.5
Alberta Foothills				
Production:				
Oil & Liquids (bbls/d)		227	169	167
Natural Gas (mmcf/d)	73	151	129.8	121.1
Drilling:				
Capital Expenditures:				
Total Production (boe/d)		25,400	21,800	20,354
Number of wells		31	32	22
(C\$ million)		180.3	163	119.5
Chauvin				
Production:				
Oil & Liquids (bbls/d)	96	15,665	15,323	14,266
Natural Gas (mmcf/d)	97	16	17.2	18.3
Drilling:				
Capital Expenditures:				
Total Production (boe/d)		18,335	18,195	17,312
Number of wells		47	79	60
(C\$ million)		31.7	53	48
Ontario				
Production:				
Oil & Liquids (bbls/d)	98	1,749	2,257	2,664
Natural Gas (mmcf/d)	91	16.4	17.9	20.2
Drilling:				
Capital Expenditures:				
Total Production (boe/d)		4,486	5,242	6,034
Number of wells		26	20	29
(C\$ million)		16.7	20	40.8
Monkman-BC Foothills				
Production:				
Natural Gas (mmcf/d)	68	70.5	86.5	82.7
Drilling:				
Capital Expenditures:				
Total Production (boe/d)		11,758	14,422	13,770
Number of wells		5	5	2
(C\$ million)		97.1	51	44.3
Carlyle				
Production:				
Oil & Liquids (bbls/d)	85	6,956	7,280	7,757
Natural Gas (mmcf/d)		1.2	1	1
Drilling:				
Capital Expenditures:				
Total Production (boe/d)		7,162	7,450	7,924
Number of wells		14	15	13
(C\$ million)		14.6	13.5	13
Edson Area (includes West Whitecourt, Bigstone/Wild River)				
Production:				
Oil & Liquids (bbls/d)	92	4,393	4,024	4,230
Natural Gas (mmcf/d)	85	208.5	197.9	200.7
Drilling:				
Capital Expenditures:				
Total Production (boe/d)		39,137	37,007	37,680
Number of wells		185	130	79
(C\$ million)		416.7	278.4	193
Lac La Biche				
Production:				
Natural Gas (mmcf/d)	84	40.7	49.2	57.5
Drilling:				
Capital Expenditures:				
Total Production (boe/d)		6,780	8,208	9,589
Number of wells		18	24	12
(C\$ million)		7.6	11.6	6

Property Review:

North America (continued)

Property	Average WI (%)	2004	2003	2002	
Central Alberta (includes Acme)					
Production:					
Oil & Liquids (bbls/d)	86	1,663	2,112	2,609	
Natural Gas (mmcf/d)	73	16.7	17.4	19.5	
Drilling:					
Capital Expenditures:					
Total Production (boe/d)		4,443	5,011	5,865	
Number of wells		11	8	6	
(C\$ million)		19.1	16	16.1	
Southern Alberta Foothills					
Production:					
Oil & Liquids (bbls/d)	90	2,684	2,422	2,264	
Natural Gas (mmcf/d)	98	21.8	10.9	10.3	
Drilling:					
Capital Expenditures:					
Total Production (boe/d)		6,325	4,242	3,978	
Number of wells		17	17	4	
(C\$ million)		76.4	66.7	21.4	
Shaunavon					
Production:					
Oil & Liquids (bbls/d)	84	3,563	3,624	3,724	
Drilling:					
Capital Expenditures:					
Number of wells		7	34	7	
(C\$ million)		5.3	17.5	4	
Other					
Production:					
Oil & Liquids (bbls/d)		8,026	8,809	10,269	
Natural Gas (mmcf/d)		33.9	41.9	50.7	
Drilling:					
Capital Expenditures:					
Total Production (boe/d)		13,663	15,765.7	18,611.3	
Number of wells		69	117	65	
(C\$ million)		156.1	120.7	112.6	
Syn crude	Synthetic oil (bbls/d)	1.25	2,999	2,649	2,868
Deep Basin					
Production:					
Oil & Liquids (bbls/d)		2,080	1,735	1,679	
Natural Gas (mmcf/d)	88	60.8	50.9	44.3	
Drilling:					
Capital Expenditures:					
Total Production (boe/d)		12,208	10,212	9,059	
Number of wells		75	60	40	
(C\$ million)		129.9	91	47.3	
United States:					
Appalachia					
Production:					
Natural Gas (mmcf/d)	98	89.1	59.9	2.4	
Drilling:					
Capital Expenditures:					
Total Production (boe/d)		14,846	9,984	408	
Number of wells		21	6	—	
(C\$ million)		124.6	58.3	17	
Total Production:					
Oil & Liquids (bbls/d)		57,392	59,578	62,676	
Natural Gas (mmcf/d)		885.1	863.7	820	
(boe/d)		204,908	203,522	199,236	
(C\$ million)		1,452.4	1,109	822.5	

Property Review:

North Sea

Property	Average WI (%)	2004	2003	2002
Mid-North Sea				
Clyde/Orion/Halley				
Production:	13-95	14,215 1.8	13,014 4.4	14,688 4.5
Drilling:		14,520	13,742	15,446
Capital Expenditures:		5	2	2
Buchan/Hannay	86	72	132	94
Production:		8,814 0.4	8,526 0.4	8,062 0.7
Drilling:		8,873	8,598	8,178
Capital Expenditures:		2	2	4
Ross/Blake	54-69	20,674 6.5	22,437 7	27,017 7.7
Production:		21,755	23,601	28,294
Drilling:		2	3	—
Capital Expenditures:		12	125	4
Beatrice	100	4,270	5,603	7,406
Production:		—	—	1
Drilling:		2	4	16
Capital Expenditures:				
Flootta Catchment Area	13-100			
Production:		11,642 5,243 21,499 7,471 6,425	11,862 6,045 18,692 6,706 —	16,009 6,184 20,045 10,008 —
Piper Core Area		0.8	0.7	1.4
MacCulloch				
Claymore Core Area				
THP Core Area				
Galley				
Natural Gas (mmcf/d)		52,416 5	43,422 6	52,479 8
MacCulloch and Piper		202	121	186
Drilling:				
Capital Expenditures:				
Norway (Gyda)	61			
Production:		5,862 3	2,574 1	— —
Oil & Liquids (bbls/d)				
Natural Gas (mmcf/d)				
Drilling:		6,437	2,788	—
Capital Expenditures:		2	—	—
		42	12	—
Non-Operated				
Brae	13-18			
Production:		7,111 83	7,883 84	8,801 93
Oil & Liquids (bbls/d)				
Natural Gas (mmcf/d)				
Drilling:		21,016 8	21,816 2	24,330 1
Capital Expenditures:		—	15	4
Netherlands	2-20			
Production:		65 16	132 10	199 12
Oil & Liquids (bbls/d)				
Natural Gas (mmcf/d)				
Drilling:		2,728 3	1,764 2	2,269 2
Capital Expenditures:		—	4	13

Property Review:

North Sea (continued)

Property	Average WI (%)	2004	2003	2002
Other	2-60			
Production:	Oil & Liquids (bbls/d)	8,572	9,601	9,067
	Natural Gas (mmcf/d)	1.3	1.9	2.3
Drilling:	Total Production	8,791	9,932	9,436
Capital Expenditures:	Number of wells	11	5	5
	(C\$ million)	61	28	25
Total Production:	Oil & Liquids (bbls/d)	121,861	113,075	127,486
	Natural Gas (mmcf/d)	113.7	109.1	122.2
	(boe/d)	140,806	131,258	147,847
Total Capital Expenditures:	(C\$ million)	507	496	431

Southeast Asia

Property	Average WI (%)	2004	2003	2002
Corridor				
Production:	Oil & Liquids (bbls/d)			
	Corridor Technical Assistance Contract	40	2,464	3,368
	Corridor Production Sharing Contract	36	2,637	2,543
	Natural Gas (mmcf/d)			
	Corridor Production Sharing Contract	36	133	105.3
Drilling:	Total Production (boe/d)		27,271	23,453
Capital Expenditures:	Number of wells		5	1
	(C\$ million)		13	20
Tanjung Raya	100			
Production:	Oil & Liquids (bbls/d)		4,975	6,338
Drilling:	Number of wells		—	—
Capital Expenditures:	(C\$ million)		1	7
Ogan Komering	50			
Production:	Oil & Liquids (bbls/d)		2,154	2,443
	Natural Gas (mmcf/d)		7.6	6.8
Drilling:	Total Production (boe/d)		3,413	3,590
Capital Expenditures:	Number of wells		2	2
	(C\$ million)		1	4
Jambi	40			
Production:	Oil & Liquids (bbls/d)		1,025	1,066
Drilling:	Number of wells		4	4
Capital Expenditures:	(C\$ million)		1	2
Malaysia/Vietnam	41			
Production:	Oil & Liquids (bbls/d)		22,389	8,672
	Natural Gas (mmcf/d)		119.4	5
Drilling:	Total Production (boe/d)		42,291	9,502
Capital Expenditures:	Number of wells		19	28
	(C\$ million)		232	275
Other	25-48			
Drilling:	Number of wells		—	2
Capital Expenditures:	(C\$ million)		7	38
Total Production:	Oil & Liquids (bbls/d)		35,644	24,430
	Natural Gas (mmcf/d)		260	117.1
	(boe/d)		78,976	43,949
Total Capital Expenditures:	(C\$ million)		255	316
				269

Property Review:

Algeria

		Average WI (%)	2004	2003	2002
Production:	Oil & Liquids (bbls/d)	35	13,537	6,594	—
Drilling:	Number of wells		3	12	8
Capital Expenditures:	(C\$ million)		8	34	107

Trinidad and Tobago

Production:	Oil & Liquids (bbls/d)	25			
Drilling:	Number of wells		14	3	5
Capital Expenditures:	(C\$ million)		191	130	78

Sudan

Production:	Oil & Liquids (bbls/d)		—	13,039	60,109
Drilling:	Number of wells		—	3	30
Capital Expenditures:	(C\$ million)		—	2	98

Exploration Areas

Alaska

Drilling:	Number of wells	100	1	—	—
Capital Expenditures:	(C\$ million)		63	25	—

Colombia

Drilling:	Number of wells	30-70	2	—	—
Capital Expenditures:	(C\$ million)		17	21	22

Other

Drilling:	Number of wells		1	—	—
Capital Expenditures:	(C\$ million)		45	72	21

Directors and Executive

Board of Directors

Douglas D. Baldwin^{2,3,4,6}

Calgary, Alberta, Canada

Chairman, Talisman Energy Inc.

James W. Buckee^{2,5}

Calgary, Alberta, Canada

President and Chief Executive Officer
Talisman Energy Inc.

Kevin S. Dunne^{3,5,6}

Tortola, British Virgin Islands

Corporate Director

Al L. Flood, C.M.^{1,4}

Thornhill, Ontario, Canada

Corporate Director

Dale G. Parker^{1,5}

Vancouver, British Columbia, Canada

Public Administration and Financial
Institution Advisor

Lawrence G. Tapp^{3,4}

Langley, British Columbia, Canada

Chairman, ATS Automation

Tooling Systems Inc.

Stella M. Thompson^{2,4,5}

Calgary, Alberta, Canada

Principal, Governance West Inc.
President, Stellar Energy Ltd.

Robert G. Welty^{1,3}

Calgary, Alberta, Canada

Chairman, Chief Executive
Officer and Director

Sterling Resources Ltd.

Charles W. Wilson^{1,2,6}

Evergreen, Colorado, United States

Corporate Director

1 Member of Audit Committee

2 Member of Executive Committee

3 Member of Governance and
Nominating Committee

4 Member of Management Succession
and Compensation Committee

5 Member of Pension Funds Committee

6 Member of Reserves Committee

Executive

James W. Buckee

President and Chief Executive Officer

Ronald J. Eckhardt

Executive Vice-President,
North American Operations

T. Nigel D. Hares

Executive Vice-President,
Frontier and International Operations

Joseph E. Horler

Executive Vice-President, Marketing

Michael D. McDonald

Executive Vice-President, Finance
and Chief Financial Officer

Robert M. Redgate

Executive Vice-President,
Corporate Services

M. Jacqueline Sheppard

Executive Vice-President, Corporate
and Legal, and Corporate Secretary

John 't Hart

Executive Vice-President, Exploration

Corporate Information

Executive Office

Talisman Energy Inc.

3400, 888 - 3rd Street S.W.
Calgary, Alberta, Canada T2P 5C5
Telephone: (403) 237-1234
Facsimile: (403) 237-1902

Website

www.talisman-energy.com

E-mail: tlm@talisman-energy.com

Selected Field Offices

Talisman Energy (UK) Limited

Talisman House
163 Holburn Street
Aberdeen AB10 6BZ
Scotland
Telephone: 44 (1224) 352-500
Facsimile: 44 (1224) 353-400

Talisman (Asia) Ltd.

Setiabudi Atrium Office, Suite 410
Jl. H.R. Rasuna Said Kav. 62
Jakarta, 12920, Indonesia
Telephone: 62 (21) 521-0654
Facsimile: 62 (21) 521-0660

Talisman Malaysia Limited

Level 31
Menara Citibank
165 Jalan Ampang
50450 Kuala Lumpur, Malaysia
Telephone: (603) 2162 6970
Facsimile: (603) 2162 6972

Talisman Energy Norge A.S.

Bjergstedveien 1
N-4002
Stavanger, Norway 4002
Telephone: 47 5200 2000
Facsimile: 47 5200 1500

Goal Petroleum (Netherlands) B.V.

Atrium Bldg c/o Regus Centre
Strawinskylaan 3051
Amsterdam, The Netherlands 1077ZX
Telephone: 31 20301 2180
Facsimile: 31 20301 2317

Talisman (Trinidad) Petroleum Ltd.

4th Floor, Albion Plaza
22-24 Victoria Avenue
Port of Spain
Trinidad, West Indies
Telephone: (868) 625-1515
Facsimile: (868) 624-7999

Talisman Energy (Qatar) Inc.

Suite 2-1
Al Jaber Tower
Museum Street
Doha, Qatar
Telephone: (974) 435-1815
Facsimile: (974) 435-0980

Fortuna Energy Inc.

203 Colonial Drive
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Horseheads, NY 14845
Telephone: (607) 795-2700
Facsimile: (607) 795-2701

Investor Relations Contacts

M. Jacqueline Sheppard

Executive Vice-President,
Corporate and Legal,
and Corporate Secretary
(403) 237-1183

David W. Mann

Senior Manager, Corporate and
Investor Communications
(403) 237-1196

Christopher LeGallais

Manager, Investor Relations
(403) 237-1957

Investor Information

Common Shares

Transfer agent: Computershare Trust Company
of Canada
Calgary, Toronto, Montreal, Vancouver
Co-transfer agent: Computershare Trust Company Inc.
Authorized: Unlimited number of common shares and
unlimited number of first and second
preferred shares
Issued: 375,185,290 common shares
at December 31, 2004

Private Debt

6.96% (US\$) unsecured notes
6.89% (US\$) unsecured notes, Series B
6.68% (US\$) unsecured notes

Dividends

In 2004, the Company paid semi-annual dividends in June and December each in the amount of \$0.15 per common share (on a post share split basis). Talisman's dividend policy is reviewed semi-annually by the Board of Directors.

Stock Exchange Listings

Common Shares

Symbol: **TLM**
Canada: Toronto Stock Exchange
United States: New York Stock Exchange

Public Debt

Trustee: Computershare Trust Company of Canada
7.125% (US\$) unsecured debentures
7.25% (US\$) unsecured debentures
8.06% unsecured medium term notes
5.80% unsecured medium term notes

Trustee: JP Morgan Chase, London Branch
6.625% (£) unsecured notes

Talisman's public long-term debt is currently rated as:
Dominion Bond Rating Service – BBB (high);
Moody's – Baa1;
S&P – BBB+

Annual Meeting

The annual meeting of shareholders of Talisman Energy Inc. will be held at 10:30 a.m. on Tuesday, May 3, 2005 in the Exhibition Hall, North Building of the Telus Convention Center, 136 Eighth Avenue S.E., Calgary, Alberta. Shareholders are encouraged to attend the meeting, but those who are unable to do so are requested to participate by voting, using one of the three available methods: (i) by telephone, (ii) by internet, or (iii) by signing and returning the form of proxy or voting instruction form mailed with the management proxy circular.

Market Information

Common Shares ¹		2004		2003		2002	
		TSX (C\$)	NYSE (US\$)	TSX (C\$)	NYSE (US\$)	TSX (C\$)	NYSE (US\$)
Share Price (dollars)	High	35.10	28.66	24.60	18.99	23.36	15.23
	Low	23.68	17.64	18.37	11.77	17.10	10.70
	Close	32.35	26.96	24.51	18.87	18.95	12.06
Shares Traded (millions)	First quarter	86.2	23.4	114.9	30.3	79.2	23.7
	Second quarter	81.9	27.4	78.6	24.9	84.0	25.8
	Third quarter	81.3	19.2	71.4	23.7	89.1	32.4
	Fourth quarter	99.9	20.7	79.8	25.8	153.9	46.2
Year		349.3	90.7	344.7	104.7	406.2	128.1
Year end shares outstanding (millions)		375		384		393	
Weighted average shares outstanding (millions)		383		386		402	
Year end stock options outstanding (millions)		20.8		23.6		22.2	

1 Talisman divided its common shares on a 3:1 basis in May 2004.
All of the historical share numbers have been restated for comparability.

Non-GAAP financial measures

Included in this Annual Report Financial Review are references to terms commonly used in the oil and gas industry such as cash flow and cash flow per share. These terms are not defined by Generally Accepted Accounting Principles in either Canada or the US. Consequently, these are referred to as non-GAAP measures. Cash flow, as commonly used in the oil and gas industry, appears as a separate caption on the Company's cash flow statement and represents net income before exploration costs, DD&A, future taxes and other non-cash expenses. Cash flow is used by the Company to assess operating results between years and between peer companies with different accounting policies. Cash flow should not be considered an alternative to, or more meaningful than, cash provided by operating, investing and financing activities or net income as determined in accordance with Canadian GAAP as an indicator of the Company's performance or liquidity. Cash flow per share is cash flow divided by the average number of common shares outstanding during the period. Debt to cash flow is a non-GAAP measure. Our reported results of cash flow and cash flow per share may not be comparable to similarly titled measures by other companies.

Abbreviations and Definitions

API	American Petroleum Institute	Natural gas is converted to oil equivalent at the ratio of six mcf to one boe.
bbls	barrels	Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6:1 is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
bbls/d	barrels per day	
bcf	billion cubic feet	
boe	barrels of oil equivalent	
boe/d	barrels of oil equivalent per day	
C\$	Canadian dollars	Gross acres means the total number of acres in which Talisman has a working interest. Net acres means the sum of the fractional working interests owned in gross acres expressed as whole numbers and fractions thereof.
FPSO	Floating Production, Storage and Offloading Vessel	
LNG	Liquid Natural Gas	Gross production means Talisman's interest in production volumes (through working interests, royalty interests and net profits interests) before the deduction of royalties. Net production means Talisman's interest in production volumes after deduction of royalties payable by Talisman.
mcf	thousand cubic feet	
mcf/d	thousand cubic feet per day	Gross wells means the total number of wells in which the Company has a working interest. Net wells means sum of the fractional working interest owned in gross wells expressed as whole numbers and fractions thereof.
mmbbls	million barrels	
mmboe	million barrels of oil equivalent	
mmbtu	million British thermal units	
mmcf	million cubic feet	
mmcfd	million cubic feet per day	
Moody's	Moody's Investor Service	
NYMEX	New York Mercantile Exchange	
OECD	Organization of Economic Cooperation and Development	
OPEC	Organization of Petroleum Exporting Countries	
PSC	Production Sharing Contract	
S&P	Standard & Poor's Ratings Group	
tcf	trillion cubic feet	
TSX	Toronto Stock Exchange	
UK	United Kingdom	
US	United States of America	
US\$	United States dollar	
WTI	West Texas Intermediate	
£	Pounds sterling	

Conversion & Equivalency Factors

Imperial	=	Metric
1 ton	=	0.907 tonnes
1 acre	=	0.40 hectares
1 barrel	=	0.159 cubic metres
1 cubic foot	=	0.0282 cubic metres

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Talisman has published a separate Annual Report Summary, Corporate Responsibility Report and Corporate Responsibility Summary. These reports are available by contacting the Company and can also be viewed on its website.

Talisman Energy Inc.

3400, 888 - 3rd Street S.W. Calgary, Alberta, Canada T2P 5C5

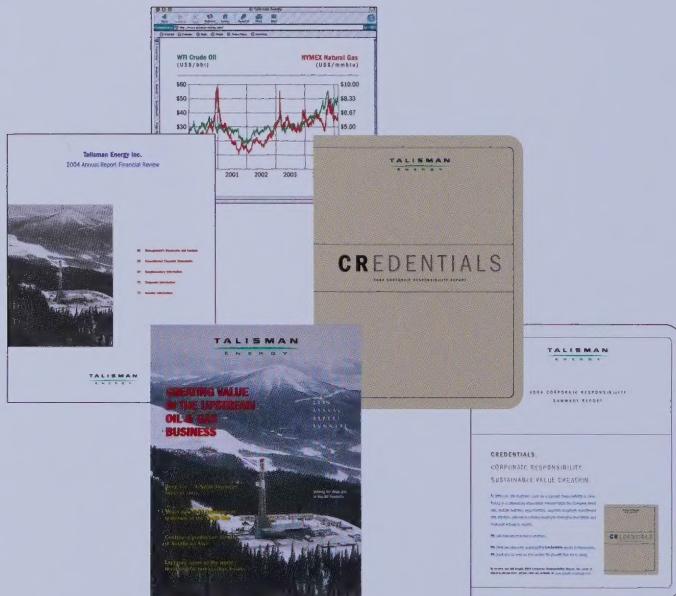
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